

Accountancy

ESTABLISHED 1889

The Society of Incorporated Accountants and Auditors

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SEPTEMBER 1949



ONE SHILLING

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Professional Notes

Government versus Professional Form of Auditors' Report

A PARAGRAPH WHICH IT WAS PROPOSED SHOULD BE INCLUDED IN THE RECENT report of the Public Accounts Committee (mentioned in the following Professional Note) but which was deleted after the Committee had voted upon it, stated that the Committee considered it should examine the accounts of public corporations. It had, in fact, examined the accounts of the three Civil Airways Corporations, the five New Towns Development Corporations and the National Coal Board. The Comptroller and Auditor General does not have access to the books of the public corporations and makes no report on their accounts; another draft paragraph deleted from the report suggested that the professional auditors appointed by the Ministers concerned should be asked to render, for the use of the Ministers and the Committee, full reports, not necessarily for publication, on the lines of the reports which the Comptroller and Auditor General makes on Government accounts. "These reports relate primarily to matters of public concern in which Parliament might be expected to take an interest, such as apparent waste or extravagance within the organisation, effectiveness of methods of internal financial control, the arrangements made for stocktaking and store accounting and the reasons for variations in costs and prices."

The Treasury informed the Committee—again, according to a paragraph

drafted but not included in the Committee's ultimate report—that professional accountants would not certify accounts unless they were satisfied about such matters as the adequacy of internal financial control, stocktaking and store accounting. They also pointed out that independent reports to Ministers on other points would prejudice the relations between the corporations and their auditors.

It is satisfactory that nothing after all is to be done about the suggestion that full reports of the kind envisaged should be required from the professional auditors of the corporations, in addition to their normal auditors' reports. The public corporation is a form of quasi-business unit devised with the very purpose of restricting Ministerial control and employing normal commercial methods as far as possible. As such, their accounts should be audited in the way customary in ordinary business and not as with Government accounts proper. The suggestion, if it had been adopted by the Public Accounts Committee and had been put into effect, would have made serious inroads into the whole idea of the public corporation, as well as casting a general reflection upon the value of the commercial audit.

The Inland Revenue

To cope satisfactorily with tax work, the number of Inspectors of Taxes should be about 2,000. But it is now about 1,400, a decrease of 300 compared with the pre-war total. Some 300 officers are now being trained for the Inspector grade but training takes three years. These facts are taken from the third report of the Committee of Public Accounts for the session 1948-49 (His Majesty's Stationery Office, 6d. net).

The report states that the Inland Revenue expect that, partly because of this shortage of staff, balances of tax in process of assessment will continue to increase. At the end of the financial year 1946-47, these balances, exclusive of P.A.Y.E., totalled nearly £843 million. However, many of the assessments were provisional or under appeal and it was estimated that only £325 million would finally prove to be due for collection.

Final settlements of E.P.T. were also held up because of the deferred repairs allowance, thus further delaying income tax and sur-tax settlements.

Arrears of tax due for collection were £141 million at the end of 1946-47. The Committee stated that this figure gave them concern and should be reduced.

The report of the Commissioners of Inland Revenue for the year ended March, 1948, has also just been published (His Majesty's Stationery Office, 1s. 6d. net). The report starts with a useful summary of tax legislation in 1947-48 and then gives a wealth of statistics on income tax, sur-tax, profits tax, death duties and the other duties collected by the Inland Revenue. From among these extensive statistics we may select for illustration some figures on valuations of property for death duties. These show that in 1938-39 the principal value as brought in by the accounting bodies was increased by 3.87 per cent. as a result of the official process of valuation. Since that year the increase due to the official valuation has grown annually, particularly since the war, and in 1947-48 it was 10.95 per cent. We do not profess to know the reasons for this growth and would welcome some enlightenment on it.

Trust Accounts

The latest addition (No. 14) to the series of accounting recommendations of the Institute of Chartered Accountants is called *The Form and Contents of Accounts of Estates of Deceased Persons and Similar Trusts*. In the introductory paragraphs two major points are made: firstly, that trustees are responsible not only for assets coming into their hands but for the administration of the estate and, secondly, that although beneficiaries are often with limited accountancy knowledge they are closely interested in the trust estate or its income. The recommendation logically follows—that the balance sheet, income account and estate capital account should not be overloaded with data and that the supporting schedules should carry the detail and be so drawn as to give a view of the administration.

As to the balance sheet, it is suggested that items relating to capital should be distinguished from those connected with income. Where there are outstanding liabilities, "of which the

amount cannot be determined with substantial accuracy" a note should be made. It will be noticed that the words within quotation marks are identical with those contained in the statutory definition of "provisions" in the Companies Act, 1948. Fixed assets should be included at estate duty valuation, although there may be special circumstances requiring a revaluation of the assets as a whole, as where there is a partial division of the estate in specie. Quoted and unquoted investments should be segregated; this, again, savours of the Companies Act, 1948.

In the estate capital account it is advised that the amount of the assets and liabilities, at the date of death, should appear with a balance showing the net estate as declared for estate duty; and, if necessary, there should be shown property liable to duty, property so liable upon falling in, and property exempt from duty.

We are impelled to refer to a fact which is not dealt with in the Institute's pamphlet. There are, at present, three distinct forms of presentation of trust accounts adopted in Great Britain—the "accounts charge and discharge" exclusively followed in Scotland, the form followed by members of the English bodies of accountants and the widely differing lay-out adopted by members of the Law Society. The different Scottish practice is at least partially due to the variations between the Scottish and English law on trusts. The existence of two divergent procedures in England is chiefly due to the insistence by the courts of law on a form of account which does not follow the lines of commercial accountancy.

Operation Canute Again

Not for the first time, the President of the Board of Trade is commanding the waves of increasing wage rates not to push up the price level and the tide of inflationary pressure to reverse itself. But his Orders (of delayed publication) that the retail prices of "utility" clothing, footwear and household textiles should fall by five per cent. apparently do not provide against either a drying-up in the flow of these goods or a lowering of their quality—two ways in which economic forces are liable to reassert

their authority over even Presidential decrees.

The way in which those decrees were promulgated, only to be withdrawn for consultations with traders—consultations that should have taken place beforehand—is another and dismal story. It now looks as though the five per cent. price cut will at least be shared among the various branches of the trades instead of being confined to retailers, as was originally laid down, but as we go to press there is no indication of whether or not second thoughts at the Board of Trade have produced ideas having as much equity and chance of success as can reasonably be expected in an inequitable and impracticable scheme.

Proposed American Tax Board

A Bill now before the House of Representatives in the U.S.A. proposes the setting-up of a Tax Settlement Board, to bring about speedy and inexpensive settlement of disputes between taxpayers and the Bureau of Internal Revenue.

While the functions of the Bureau of Internal Revenue are similar in most respects to our own Board of Inland Revenue, and most assessments are settled satisfactorily by negotiation with the Board's agents, just as they are agreed here with the local Inspectors of Taxes, the absence of any tribunal in the U.S.A. equivalent to our own General or Special Commissioners has led to a rather unsatisfactory situation. In the words of Representative Mills, who introduced the Bill:

Inevitably, as the situation exists today, many taxpayers must feel that in attempting to settle cases with the agents and technical staff of the Bureau of Internal Revenue, they must deal with a judge who is also a prosecutor, unless they are willing to take the time and spend the money to go to court. . . . Creation of a Tax Settlement Board, with informal procedures, to which the taxpayer could appeal his case with a minimum of trouble and expense, would go far toward restoring the complete confidence in fair treatment which is essential to a workable tax system.

It must not be thought, however, that the proposed Board is to be modelled on our own appeal machinery. On the contrary, in the words of the Bill:

The Tax Settlement Board shall not require the introduction of evidence and

shall not make findings of fact or issue conclusions of law, but shall determine in its discretion what would be a fair settlement of the controversy.

It would seem, therefore, that the Board will be an arbitrator whose award is not binding on either party! Perhaps it would be better to describe it as an "honest broker" or disinterested third party and it is, no doubt, hoped that in the great majority of cases its decisions will be accepted. Where they are not accepted, by either party, the normal procedure of appeal to the courts is revived, and "no part of the proceedings before the Tax Settlement Board or the settlement shall ever be admitted in evidence before any court." There is thus no counterpart to the "case stated" in our own appeal procedure.

The Bill appears to have received the full support of the American Institute of Accountants, for the opportunities of practising accountants in the U.S.A. to represent their clients on taxation appeals are at present very limited.

Coal Industry Nationalisation— Interim Income Payments

Under the nationalising Act colliery concerns could receive an interim income for the years 1947 and 1948 at the rate of one-half of their ascertained revenue during certain defined periods before nationalisation. Since the settlement of the compensation payable to individual concerns is taking longer than was expected, the Government has introduced a Bill (The Coal Industry (2) Bill) under which interim income can be paid for 1949 and subsequent years until the compensation money is received. The rate of interim income for these years will, however, be one-third instead of one-half of the ascertained revenue and will be treated as advances or payments of account against interest eventually accruing on the compensation money. It will not, therefore, represent an addition to the total payments provided under the nationalising Act.

Australian Congress on Accounting

For the second time in the history of the profession in Australia, the various accountancy bodies there are combining their resources to organise a Congress on Accounting. This will be

held in Sydney in November. The President and Council of Management have cordially invited members of the Society of Incorporated Accountants to attend.

The technical sessions are intended to point to the revolution in accounting thought which is taking place and to emphasise the need for a review of current standards and practices. Accounting authorities from Great Britain and various parts of Australia will contribute papers on the following subjects:

Accounting Standards,
Contemporary Auditing Practice,
The Future Role of the Accountant.
The Influence of Economics on Accounting,
New Perspectives in Cost Accounting for Management,
Widening Responsibilities of Accountants,
The Status of the Accountant in Australia.

There is also a full programme of social functions and entertainments.

Stamp Duties on New Issues

The London Stock Exchange and the Issuing Houses Association make the following announcement:

Under the Finance Act, 1949, which has now received the Royal Assent, the following situation will obtain:

(1) Letters of allotment, provisional allotment letters, letters of renunciation, scrip certificates and scrip (including letters of right) will attract none of the duties to which they are at present liable under the heading in the Stamp Act "Letters of Allotment, etc."; nor will they be liable to the 6d. agreement duty, nor (if in exceptional circumstances they are under seal) to the 10s. duty as deeds;

(2) Letters of acceptance on an offer for sale will not be liable to the 6d. agreement duty, but the Act contains no provision exempting them from the 10s. duty as deeds if in exceptional circumstances they are under seal;

(3) Registration application forms annexed to letters of allotment or letters of acceptance and forms of acceptance annexed to provisional allotment letters or letters of right may or may not constitute agreements if under hand and if under seal may or may not constitute deeds; this depends *inter alia* upon the wording of the documents. In any event they will no longer be liable to the 6d. agreement duty, but the Act contains no provision exempting them from the 10s. stamp to which they are at present liable if the circumstances are such that they constitute deeds.

(4) Receipt stamps. Even though allotment or acceptance letters may be so worded as to acknowledge the receipt of instalments already paid they will not be treated by the Inland Revenue as being liable to be stamped with a 2d. stamp as receipts. Where, however, receipts for instalments are attached to an allotment or acceptance letter, they will each require a separate receipt stamp. The Committee of London Clearing Bankers and the Issuing Houses Association have indicated to the Inland Revenue that in such cases they would not be prepared to use adhesive stamps and in consequence receipts attached to such documents must be submitted to the Stamp Office for the impression of the 2d. stamp before issue;

(5) In cases of difficulty the Board of Inland Revenue have indicated to the Share and Loan Department of the Stock Exchange that they will always be ready to give their opinion on any particular document.

Royal Naval Volunteer Reserve

Men may now be entered in the R.N.V.R. between the ages of 17 and 17½ years. Men over 17½ years may only be entered if they have served in the forces or if their National Service has been deferred sufficiently for them to undertake a year's training before their call-up.

All men entered in the R.N.V.R. are guaranteed that their National Service will be in the Royal Navy provided they are efficient. The requirements are: eighty drills of one hour and fourteen days' continuous training a year; an engagement for five years or (if shorter) until the beginning of National Service; an undertaking that the man will re-enrol in the R.N.V.R. for five years on completion of National Service. Training expense allowance and travelling expenses are payable for attendance at drills and if all commitments are carried out there is an annual bounty. Pay at naval rates is also made during continuous annual training. There are opportunities of advancement to commissioned ranks.

We understand that vacancies exist in the seamen, writers and stores branches.

Application forms for enrolment or further details may be obtained from the Admiral Commanding Reserves, Queen Anne's Mansions, London, S.W.1, or from the Commanding Officer of the R.N.V.R. Divisions in the main ports.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. od., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

September Conversazione

WHATEVER PROPOSALS SIR STAFFORD Cripps and Mr. Bevin may be taking to Washington, it is unlikely in the extreme that "the dollar crisis" will be solved there this month. The latest "crisis" is no more and no less than another symptom of the way in which almost all non-American economies are fundamentally unbalanced. As custodian for the sterling area and as the greatest non-American trading country, it is inevitable that the dollar shortage should be focused upon Great Britain. It is also right that this country should be expected to contribute largely to a solution. But to expect the complete solution to be of British manufacture is to misunderstand the problem completely.

No doubt the British Government will persist in its refusal to do the things that most obviously need to be done if it is to take the share of responsibility that attaches to it. A large reduction of Government expenditure, and thus of taxation; a relaxing of controls; an increase in productivity; no distraction on nationalisation schemes—all these are clearly required if our economy is to be put in order. Recital of these rather generalised requirements by, for example, the Federation of British Industries in a widely publicised statement, may help to pin attention on fundamentals. Yet we doubt whether such exhortations can produce important results. It is not very realistic to demand action at the fundamental level in what is at best the pre-election year, and may be the pre-election quarter. Nobody who peruses the report of the General Council of the Trades Union Congress, just published, or the agenda for its 1949 meeting—which significantly coincides with the Washington discussions—can fail to see that any step which lowers the standard of living here is ruled out for the time being. All

the requirements of the F.B.I. are aimed at doing this very thing. They must be so aimed, otherwise they would not, as admittedly they do, go to the root of the problem.

Another step urged by some, including Americans, the devaluation of sterling, is in the same class as the F.B.I.'s proposals. It would raise the price of imports and thus, unless completely offset by wage increases, would lower the standard of living. Thus in existing conditions it would be completely offset by wage increases. In addition, it remains doubtful whether, following a devaluation of sterling, exports to the United States from the sterling area would bring in many more dollars than before.

The main reason why nothing very dramatic can be expected from the Washington talks is to be found, therefore, in the political situation here, and particularly in the forthcoming general election. This is not so much a criticism of the present Government as an acceptance without cynicism of the fact that no Government is likely to risk political suicide.

While this British inaction is understandable, it is nevertheless deplorable. Yet we must return to the outstanding point that no amount of British action would be sufficient in the present *impasse*. In the first place, the larger part of the drain on London reserves of gold and dollars and on "Marshall dollars" results from an insufficiency of exports to the United States on the part, not of Great Britain, but of the other sterling area countries. The Dominions, excluding South Africa and Canada, and most of the colonies draw many more dollars from the sterling area pool than they put into it; those colonies which are net earners of dollars are earning far from enough to replenish the pool. In the second

place, most European countries are exporting far too little to the United States, and their deficiencies largely result in a drain of dollars, and goods exchangeable for dollars, from Great Britain.

It is doubtful indeed whether, with however good a will, the British emissaries at Washington could really tackle either of these two aspects of the problem. Leadership of the sterling area does not carry with it any right to settle the economic policy of the Dominions or to do more than guide that of the colonies. As for European countries, far from realising their responsibilities, they are mostly content to paint Great Britain in lurid colours as the arch-villain. They are as oblivious as American newspapers to the facts that despite our failure to do all that we should in restoring economic balance here, we have increased our production since pre-war more than any other major European country, we are earning by exports to the Western Hemisphere a larger share of imports from it than is earned by any other large European country, and we are providing miniature "Marshall Aid" to Europe of large dimensions.

Nor must the American side of the picture be omitted. However great the efforts to close the dollar gap made by Great Britain, by other sterling area countries, and by Europe, complete success is impossible without American co-operation. In one of the most brilliant exercises in applied economics published in recent years, the Economic Commission for Europe in its recently issued *Economic Survey of Europe in 1948* has shown that Europe is bound to suffer from a dollar gap, no matter what conceivable steps it takes to sell in the United States. The gap, the *Survey* concludes, can only be filled by American capital investment, in Europe or elsewhere. (Dollars supplied through investment outside Europe would circulate generally and help ease the European dollar shortage.) Admittedly, Americans may legitimately expect countries in which they invest, including Great Britain, to take all necessary steps to make their investments profitable and secure—but there must also be the willingness to invest. It would perhaps be one of the most hopeful results of the Washington discussions if it became clear that this willingness existed.

Accountants in Australia

[CONTRIBUTED]

We give on page 233 of this issue some brief particulars of the Australian Congress on Accounting. The occasion seems an appropriate one for an article telling British accountants something of the profession in the Commonwealth, including prospects for intending emigrants.

THE MAIN ACCOUNTANCY BODIES IN Australia are four. Brief particulars of them are set out below. There are also some smaller Institutes. There exists a certain degree of overlapping membership, as many practising members of the Commonwealth and Federal Institutes and the Association of Accountants are also members of the Institute of Chartered Accountants, and quite a number of non-practising accountants are members of more than one Institute.

The Main Institutes

The Institute of Chartered Accountants in Australia

The Charter was granted to this Institute in 1928. The degrees are: Fellows—F.C.A. (Aust.) and Associates—A.C.A. (Aust.).

Membership of this body is limited to practising accountants and their clerks, with a separate list of those who have ceased practice and transferred to Government or private employment. Admission is restricted to clerks in the employ of Chartered Accountants, and both years of service and examinations are compulsory for those seeking admission.

The Charter of this institute contains a special provision for the admission of members of the Society of Incorporated Accountants and Auditors who may desire to join. Practically all Australian members of the Society are members of the Chartered Institute.

The membership is 2,883, composed as follows: Fellows in practice, 1,291; Associates in practice, 427; Associates not in practice, 427; Associates on separate list, 738.

Commonwealth Institute of Accountants

This Institute was founded in 1886 as the Incorporated Institute of Accountants, Victoria. Later on, the words "Commonwealth of Australia" were substituted for "Victoria." Still later, the name was entirely changed to the Commonwealth Institute of Accountants.

The degrees are: Fellows—F.I.C.A.; Associates—A.I.C.A.; and Provisional Associates (under 21 years of age).

Membership includes accountants in public practice and those in Government or private employment. Admission is open to those who pass the examinations and comply with certain other conditions.

The membership is 5,259, made up as follows: Fellows, 502; Associates, 4,220; Associates on separate list, 223; Provisional Associates, 298; and Life Honorary and Corresponding Members, 16.

Federal Institute of Accountants

This Institute was founded in 1894.

The degrees are: Fellows—F.F.I.A.; Associates—A.F.I.A.; and Provisional Associates (under 21 years of age).

Membership includes accountants in public practice and those in Government or private employment. Admission is open to those who pass the examinations and comply with certain other conditions.

The membership is 7,152, consisting of: Fellows, 1,062; Associates, 5,904; Provisional Associates, 186.

The Association of Accountants of Australia

This Association was founded in 1910.

The degrees are: Fellows—F.A.A.; Associates—A.A.A.; and Licentiates—L.A.A.

Membership includes accountants in public practice and those in Government or private employment. Admission is open to those who pass the examinations and comply with other conditions.

The membership is 1,819, as follows: Fellows, 138; Associates, 1,385; Licentiates, 288; and Honorary, 8.

Government Control of Public Company Auditors

In all the States the audit of public company accounts and balance sheets is compulsory, and the auditors appointed by such companies must hold a licence quite apart from any certificate of membership of any of the foregoing Institutes. Licences are issued under the following varying conditions in each of the States.

New South Wales

In New South Wales no accountant is eligible for appointment as auditor

of the accounts of a public company (and certain public bodies) unless he is registered by the Public Accountants' Registration Board, and pays an annual licence fee. To obtain registration an accountant must pass a prescribed examination held by the board. Members of the recognised accountancy bodies obtained registration up to a certain date, but in future no exemption from the prescribed examination will be granted.

Queensland

In Queensland the conditions relating to registration of accountants authorised to audit public company accounts are similar to those existing in New South Wales, except that members of the recognised institutes of accountants (at present) are granted full exemption from any prescribed examination, which the Public Accountants' Registration Board of Queensland has not yet instituted.

Victoria

In Victoria no person may audit the accounts of a public company unless he holds a licence from the Companies Auditors' Board. The licence is issued on application to those who are qualified members of the recognised institutes of accountants and who pass an examination test in the part of the Victorian Companies Act concerning trading companies.

South Australia

Licences to audit the accounts of public companies are issued by the Companies Auditors' Board to members of the recognised institutes of accountants upon application.

Tasmania

The Companies Auditors' Board of this State controls the issue of licences to persons desiring to audit the accounts of public companies. Members of the

recognised institutes of accountants can obtain a licence upon application.

West Australia

In this State the registration of persons eligible for appointment as auditors of public companies is under the control of the Registrar of Companies. An applicant who holds a diploma or certificate from any recognised authority to carry on the business of an auditor or accountant and is of good name will be registered as an auditor and be granted a certificate of registration.

Other Government Controls of Auditors

These are many and vary in the six States, and are too complicated to enumerate in this article. Generally speaking, an audit is compulsory of the accounts of all local government authorities and semi-public enterprises under the particular Act or Acts which govern them. Members of institutes of accountants are not necessarily eligible for appointment as auditors because only of their membership, and in many cases are required to comply with the same conditions as apply to all other applicants.

The Accountant Emigrant

British accountants who contemplate emigration to Australia will probably experience little difficulty in securing data as to the country, its climate, scenery, housing and living conditions generally. But details of the profession itself, particularly prospects and opportunities, may be somewhat hard to come by. However, Australia House can now supply details, prepared for the Commonwealth Government by one of the Australian accountancy institutes, and in this article it is hoped to supplement that information with a few guiding principles.

Firstly, it is desirable to clarify the position regarding training. Unless full professional qualifications are held, the immigrant into Australia will have a serious initial disadvantage. Competition with those possessing Australian qualifications will considerably lessen chances of success by an unqualified man.

As a result of the declining birth-rate, an acute shortage of adolescent labour is now being experienced in the profession. Any English youth, 16 to 18 years

old, with a sound education and a mind solidly set on accountancy and migration, would find little difficulty in entering the profession in Australia—indeed, he would be welcomed.

To the young single man, up to 30 years of age, keen, energetic, fully-qualified and backed by sound practical experience, it can be said that, although he would find himself in a competitive field, he would find little trouble in securing employment, particularly in country centres, although it might be necessary to start as assistant accountant or book-keeper. Many posts are now offering in rural districts which, because of the housing situation, cannot be filled by married men, and single men would fare much better under such circumstances. But it must be stressed that merit would be the chief deciding factor, and the quest would not be successful without effort.

For a man over 35 years old, the prospects are not so bright. Despite the highest academic and professional qualifications and sound practical experience, he would find himself in a strongly competitive field, up against men with extensive local knowledge, and he should be urged to consider the matter carefully and from every angle before making a decision. Nevertheless, opportunities for high-grade executive and cost accountants do occur for men in this age range, with salaries up to £1,000 per annum; but the successful applicant would require to be of outstanding merit and of exceptional capability. Mediocrity is not in demand.

A note of warning should also be sounded in so far as the thought may arise: "I'll take a post as clerk whilst I am waiting for an accountancy position." The number of clerical vacancies open in Australia to persons above the lower age groups, as against those already resident who seek employment as clerks, is such as to render the chances of an immigrant rather doubtful.

As regards prospects, the relationship of a public accountant to his clients is normally such a personal one that any English migrant must necessarily expect a fair amount of delay between the time he commences practice and the time when it becomes an economic proposition. Very few practices are available for purchase in Australia, although occasionally a small country practice comes on the market. To enter a part-

nership by purchase may be somewhat difficult if only for the reason that the British immigrant would normally be of little value in any practice until he had become technically acclimatised by acquiring a full knowledge of the Australian taxation law, company law, Local Government regulations, and other such commercial legislation peculiar to the State in which he is residing.

In another field, that of tutorial accountancy, it can be stated that an English coach, with a wide experience in the teaching of bookkeeping, accountancy, cost accountancy, and secretaryship, would find good prospects in many of the business colleges in the various capital cities of the Commonwealth. The field is, naturally, a restricted one, but opportunities do frequently occur. Whilst accounting and auditing principles would vary little from those taught in English colleges, the English tutor would find himself in need of adjustment and overhaul in so far as Australian commercial law is concerned. Both Commonwealth and State Acts are in operation and sometimes come into conflict, but their study and mastering would occasion no great hardship. Further, he would need to acquaint himself fully with Australian accountancy institutes and their examining requirements and conditions.

In conclusion, it is advised that intending immigrants, rather than apply to Australia House (other than for information of a general nature) may write direct to The Director of Employment, Warwick Building, Hamilton Street, Sydney. The Director of Employment is prepared to give an answer to all overseas enquiries. In the application, the fullest possible details should be given on age, family, education, professional training, and experience. It should also be borne in mind that immigrants should not look to this office for a position in advance of their arrival. It can only give advice, and no matter what the qualifications, a prospective employer will normally insist upon seeing the applicant before committing himself. On arrival in Australia, however, the immigrant accountant should call at the Higher Appointments Office (Commonwealth Employment Service) in the capital city of the State of choice, where he will be assisted in making contact with suitable employers.

Companies Act, 1948—XXII

SHARE CAPITAL—I

This article is the twenty-second in a series on the new company law. The first, a general article on the Companies Act, 1947, appeared in our issue of September, 1947, and subsequent articles have dealt with the following special aspects :

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| II. <i>Company Balance Sheet and Profit and Loss Account, etc.</i> | VIII. <i>Articles of Association & Annual Returns.</i> | XV. <i>The Protection of Minorities.</i> |
| III. <i>The Exempt Private Company.</i> | IX. <i>Bookkeeping and Accounts.</i> | XVI. <i>Board of Trade Investigations.</i> |
| IV. <i>Disclosure of Payments to Directors.</i> | X. <i>Points to Note.</i> | XVII. <i>Debentures.</i> |
| V. <i>Meetings.</i> | XI. <i>Accounts of Holding and Subsidiary Companies.</i> | XVIII. <i>Penalties.</i> |
| VI. <i>Prospectuses.</i> | XII. <i>Receivers and Managers.</i> | XIX. <i>The Companies (Winding-Up) Rules, 1949.</i> |
| VII. <i>Auditors.</i> | XIII. <i>Transfer and Transmission.</i> | XX. <i>Annual Returns and Returns of Changes.</i> |
| | XIV. <i>The Winding-up of Companies.</i> | XXI. <i>The Responsibilities of Directors.</i> |

By W. J. BACK, F.S.A.A.

THE NATURE OF CAPITAL

THE CHARACTERISTIC FUNCTION OF THE JOINT STOCK companies system is that capital monies, which have been saved and are awaiting investment, are gathered from many and varied sources and are put to use in the financing of industry and trade.

The system involves the ownership of capital interests by persons who are not themselves in touch with the use made of their monies and the consequent necessity of provisions as to accounting to proprietors. Hence the series of Companies Acts from 1844 onwards. The issue of capital is a sale for money or money's worth of the right to a specified proportionate interest in the undertaking and its profits. Though the right is expressed as having a nominal value, it is not for a specified sum but for a specified interest, which was originally regarded as so specific that it could be marked off and indicated by a number. The issue is subject to offer and acceptance under the general law of contract. The company supplies the particulars which are the basis of the transaction; the prospective shareholder makes application for shares; and the company accepts the application by making an allotment which appropriates to the applicant a certain specified number of shares in the undertaking.

The joint stock idea grew out of a combination of chartered company practice with that of trading in partnership. In the latter the interests and responsibilities of the proprietors were precisely alike, although possibly varying in proportionate interest. Consequently companies began as large partnerships, with a single class of share (now known as ordinary shares) which took the profits and bore the risks of enterprise. Gradually the practice grew up of offering varying terms to different types of investors, as debentures, preference, deferred and the like.

The most recent development is the institution of a class of preference shares which are, or may be, redeemed at the option of the company. This power may be valuable in cases where the company requires capital for the increase of its fixed assets, which, as they come into production, may be expected to provide means for their own repayment. By Section 58 of the Companies Act, 1948, these shares

may not be redeemed except out of the profits of the company which would otherwise be available for dividends, or out of the proceeds of a fresh issue made for the purpose. The premium on redemption (if any) must be paid out of the profits available or out of a share premium account.

When redemption takes place, otherwise than out of the proceeds of a fresh issue, there must be a transfer of a sum equal to the nominal amount of the shares redeemed out of the profits account to a reserve fund to be called "Capital Redemption Reserve Fund," and this fund may be applied in paying up unissued shares of the company or issued to the members as fully paid bonus shares, in which case the Capital Redemption Reserve Fund will disappear from the company's balance sheet, being replaced by an addition of the same amount to the company's issued share capital account.

The Memorandum of Association must state, in the case of all companies having a share capital and limited liability, the amount of the share capital and the division thereof into shares of a fixed amount, but the division into classes and the respective rights of members may be dealt with in the Articles of Association. For example, Table A, No. 2, provides that any share in the company may be issued with such preferred, deferred, or other special rights or restrictions as the company may from time to time by ordinary resolution determine. (This should be noted, because previously a special resolution was necessary.)

Capital was conceived as fixed permanently in the undertaking; the ownership of individual shares might change, but it could not be disinvested except in a winding-up.

ISSUE OF CAPITAL

The issue of new capital is regarded in the Act as normally a public issue, with private companies as exceptional cases. It involves the passing of appropriate resolutions and, if the nominal capital is increased thereby, the payment of stamp duties, the collection of monies, a resolution of allotment, and the filing of a return of allotment with the Registrar of Companies, followed by the appropriate entry in the company's share register.

A public company may obtain capital by any of the

following methods, whether initially or on a decision to increase the issued paid-up capital of the company :—

- (a) The company may issue an invitation to the public, or any section of the public, to make an offer for shares. The company will issue a prospectus, together with a form for application, and will arrange with its bankers to receive the application and the application money. The issue will usually be underwritten and any shares not taken up by the public will be taken by the underwriters in accordance with the terms of their contract.
- (b) The company may arrange for the issue to be made by an issuing house which will buy from the company the whole of the capital it is proposed to issue, preparing and publishing the prospectus on the information supplied by the company. The procedure is that the issuing house applies for the whole of the shares and they are duly allotted to it "or its nominees" by the company. The offers of the public for the shares will in due course be received by, or on behalf of, the issuing house which nominates the persons to receive the benefit of the allotment.
- (c) Or the issue may be privately "placed" (=sold) to a finance house and arrangements made for application to the Stock Exchange for "permission to deal." As a condition of this permission, the Stock Exchange Committee will require the publication of certain information with regard to the company, and when permission has been granted, the shares will be introduced to the public through the machinery of the exchange. In this case, also, the shares are allotted to the buyers (or nominees). The subsequent procedure is similar to that already described.

The essence of each of these methods of issue is the preparation of a prospectus, which is a document offering to the public shares or debentures in a company, the formal definition being "any prospectus, notice, circular, advertisement, or other invitation, offering to the public for subscription or purchase, any shares or debentures of a company" (Section 455 (1)).

The matters required to be dealt with in the prospectus are set out in Section 38 of the Act, and in the 4th Schedule, which should be consulted.* In cases where there is no public issue of a prospectus, for example, the case where a private company converts itself into a public company, the Act requires very similar information to be supplied to the Registrar, and placed upon the file as available to the public (Section 30 and 3rd Schedule).

The company is prohibited by Section 54 from providing financial assistance for the purchase of its own or its holding companies' shares, unless in the special circumstances set out in that Section.

In view of the various methods of making public issues already described, Section 55 of the Act says :

Any reference in this Act to offering shares or debentures to the public, shall, subject to any provisions to the contrary contained therein, be construed as including a reference to offering them to any section of the public, whether selected as members or debenture

holders of the company concerned, or as clients of the person issuing the prospectus.

But the offer shall not be taken as having been made to the public if the offer in question

can properly be regarded, in all the circumstances, as not being calculated to result, directly or indirectly, in the shares or debentures becoming available for subscription or purchase by persons other than those receiving the offer.

It would seem that the short explanation of this Section is the intention to deal with the channel by which shares in a new issue reach the public, especially covering the "placings." This was necessary, because previously the offer to the public by the parties to whom placing had been made might not come within the prospectus requirements, so that it might happen that in such cases no document which was technically a prospectus would be issued at all. This document is now brought within the prospectus rules if the shares come into the ownership of persons other than those to whom the offer is made. In all such cases, there must be compliance with the requirements as to disclosure.

The prospectus having been issued, it may be anticipated that applications and application monies will begin to come in. As long as there is any liability on the company to repay monies to applicants (for example, under Section 51), all monies received by way of subscription must be kept in a separate banking account (Section 51 (3)). In the case of the first issue, no allotment must be made until the "minimum subscription" has been reached and the application monies paid to the company. The "minimum subscription" is the minimum amount which, in the opinion of the directors, is necessary to provide for the purchase price of property to be purchased and working capital, together with preliminary expenses and commission, and its amount must be stated in the prospectus (Section 47). The object of this provision is to ensure that no company commences business without sufficient capital. If the minimum subscription is not reached within 40 days after the first issue of the prospectus, all monies received from applicants must be repaid.

The important new provisions of Section 50 should be noted. No allotment of shares shall be made until the beginning of the third day after that on which the prospectus is first issued, and that any application made in response to a prospectus shall not be revocable until after the expiration of the third day from the opening of the subscription lists. These provisions have, as their objects :

- (1) The prevention of the company from making a rushed issue before the financial Press has had time to comment on the offer or the public has had time to obtain other advice as to the issue.
- (2) The curbing of the activity of "stags" : a "stag" is an operator who applies for shares with no intention of taking them up himself. If the shares are taken up well by the public and are likely to come to a premium, he sells his rights off quickly and takes the premium; if, on the other hand, the issue falls flat, he withdraws his application at the last moment, so giving considerable trouble and causing confusion in the issue.

The Companies Act of 1929, like its predecessors, required the shares to be numbered. The original purpose of

* See also the sixth article in this series in the March, 1948, issue of ACCOUNTANCY.

this provision was to enable the title of the particular persons to be traced. This is now varied by Section 74 of the present Act, which provides that if all shares in a particular class are fully paid and rank *pari passu* for all purposes, none of these shares need have a distinguishing number.

When the due formalities as to a public issue have been completed, and the allotment completed, the company must, within one month, make a return of allotments to the Registrar of Companies.

The issue of new capital will normally be at par, but where the company has had a successful history it will be possible to obtain a premium on the issue. In this connection, it is provided by Section 56 that premiums shall be carried to a "Share Premium Account," and the provisions in the Act relative to the reduction of capital will apply to this account equally with the capital itself. That is to say, the premium will be regarded as part of the permanent paid-up share capital of the company. This is an important alteration, because under the old law there was nothing to prevent such premiums being made available for distribution as dividends.

These amounts received as share premiums may be used to pay up unissued shares of the company, which may thereafter be issued as fully paid bonus shares, or applied for the writing off of (a) preliminary expenses, (b) expenses of issue together with commission or discount thereon, or

(c) in providing for the premium payable on redemption of redeemable preference shares or dividends. These limitations apply to premiums on shares issued before the commencement of the present Act (Section 56).

Section 57 of the Act gives the company power to issue shares at a discount in certain strictly limited conditions. This provision may be of great value to a company which has been unsuccessful, so that the net value of its assets (that is, assets less liabilities) has fallen below the amount of its nominal capital. It may very well be that the rescue of such a company may depend upon its ability to attract new capital, but no fresh issue at par would be taken up by the public whilst yet the prospects might be good enough to attract new capital at something less than par. The Act provides that shares of a class already in issue may be offered at a discount: (1) If this course has been authorised by the company in general meeting, in a resolution which specifies the rate of discount, and approved by the Court, and (2) if not less than one year has elapsed since the date at which the company was entitled to commence business. In such a case, the shares must be issued within one month after the date at which the sanction of the Court is given.

In the books of the company the discount will be placed to the debit of a "Share Discount Account," and to the credit of the Members' Share Account, so that the Capital Account would be credited with the par value of the shares.

(To be concluded)

Points in Practice

SHARE VALUATION—III

THE IMPORTANCE OF THIS SUBJECT AND THE complexity of it have been stressed in previous articles and it is for this reason that a third set of notes has been devoted to it. Previous notes appeared in our June and July issues. Points concerning valuations for Estate Duty purposes of interests in partnerships and controlled companies have already been covered. The present notes are therefore restricted to the valuation of shares in private companies in which the deceased did not hold a controlling interest and the far less complicated matter of shares in public companies which have a Stock Exchange quotation.

Basis of Valuation

Estate Duty is chargeable on the principal value of the property and by Section 7 (5) of the Finance Act, 1894, this is defined as the price which, in the opinion of the Commissioners, the property would fetch if sold in the open market at the time of the death of the deceased.

Investments in Private Companies

Bearing this basis of valuation in mind one has to consider what is the value of the deceased's holding in a private company when such holding does not give a controlling interest. The same consideration has to be given in respect of shares in a public company for which there is no Stock Exchange quotation.

The Estate Duty office will have to be supplied with copies of the accounts and balance sheets of the company for a period of at least three years and particulars of the prices at which the shares may have changed hands within a reasonable period of the death, but these transfers must be "at arm's length" transactions. Particulars of the dividends paid and of the profits for this period must also be disclosed.

The prime factor which has to be taken into consideration is the past and the prospective dividends in relation to the yield which would be obtainable at the date of death from a comparable quoted investment, giving a reasonable allowance for the

unmarketability of the unquoted shares. On this, the cases *in re Crossman* and *in re Paulin* (1937, A.C. 26) should be considered.

While for this purpose the dividends paid are the prime factors in the computation, it is necessary to bear in mind the profits earned when they exceed the dividends to any considerable extent. It is reasonable to assume when considering prospective dividends that a larger proportion of the profits may be divided as dividends, thus increasing the potential yield, but the reasons for the disparity should be ascertained for this is a vital point in the argument (*Salvesen's Trustees v. C.I.R.* (1930, 9 A.T.C. 43)).

A further factor affecting dividend yield which may have to be considered is the allocation of a large portion of the profits as remuneration to shareholder directors. In such cases amounts in excess of reasonable remuneration for the services rendered would be considered as dividend for the purpose of the valuation.

When the death of a prominent figure in a company obviously affects the future profit-earning capacity of the company that fact should be taken into account in assessing the value of the shares.

The compulsory application of "present net asset value" required in the case of a controlled company does not apply, but it is still necessary to consider the relation of asset value.

Restrictions on Transfer

The option frequently granted in companies' Articles of Association, making it necessary to offer shares to existing members at a "fair value" or at a definite figure, does not necessarily fix the Estate Duty values at these figures. It is still necessary to consider what such shares would realise in the hypothetical open market, bearing in mind these restrictions on transfer, and thus arrive at their value *to the deceased* at the date of his death. He was bound by these restrictive Articles and could not realise his shares to better advantage, but on the other hand he was also in a position to benefit by obtaining from other members shares on these favourable terms. The executors may not be permitted to place themselves in a position to acquire this

benefit and may, in fact, be forced to sell at the restricted price. In the circumstances the deceased owned something which could not be realised on the open market but this does not rule out the hypothetical value for Estate Duty purposes. This fact may be very unpalatable to the executors but the principle was confirmed in the House of Lords in the *Crossman* and *Paulin* cases and, therefore, has been generally adopted for all subsequent valuations.

The above will indicate that the accountant advising on the value of shares for Estate Duty purposes must obtain all the relevant facts and with these he will be in a position to negotiate with the Revenue authorities on a reasonable value.

Investments in Public Companies

The valuation of investments in companies

with a Stock Exchange quotation is a simple one.

Quotations usually give a lower figure, one which a purchaser could realise on selling his shares, and a higher one which he would pay to acquire shares in the company. For Estate Duty valuation purposes the lower quotation plus one-fourth of the difference between the lower and higher is generally accepted. It should be borne in mind when an *ex div.* quotation is given that the net dividend payable shortly after death must be included as a separate item in the Estate Duty affidavit.

The normal valuation is a *cum. div.* price including all accrued dividends to death and does not, therefore, necessitate any further additions to the value at that date.

(Concluded)

Incorporated Accountants' Conference, Birmingham, 1949

The first post-war Conference of the Society of Incorporated Accountants will be held this month at Birmingham. Meetings will be held at the University, by kind permission of the Vice-Chancellor and Council.

PROGRAMME

WEDNESDAY, SEPTEMBER 21

- 4.30-5.30 p.m. .. President's Reception at Grand Hotel, Birmingham.
- 8-8.30 p.m. .. Civic Reception at the Council House, Birmingham, by kind invitation of The Lord Mayor and the Lady Mayoress of Birmingham (Alderman and Mrs. Hubert Humphreys). Dancing until 11 p.m.

THURSDAY, SEPTEMBER 22

- 10.30 a.m.-12.30 p.m. Meeting at Birmingham University. Paper by the President of the Society of Incorporated Accountants (Mr. A. Stuart Allen, F.S.A.A.) on "The Democratic Principle in relation to Income Tax," followed by discussion.
- 12.30-1.30 p.m. .. Buffet Lunch at Birmingham University.
- 2 p.m. .. Visit to one of the following works : Dunlop Rubber Co., Ltd., Ansell's Brewery, Ltd., Carpet Trades, Ltd. (Kidderminster), Mitchell and Butlers, Ltd. (Brewery), Austin Motor Co.,

Ltd., or Golf Match, or Tennis Tournament.

- 7 for 7.30 p.m. .. Dinner of the Society at Grand Hotel, Birmingham.

FRIDAY, SEPTEMBER 23

- 10.30 a.m.-12.30 p.m. Meeting at Birmingham University. Paper by Mr. R. E. Yeabsley, C.B.E., F.C.A., F.S.A.A. (Member of the Council) on "What can Management expect from the Accountancy Profession?" followed by discussion.
- 12.30-1.30 p.m. .. Buffet Lunch at Birmingham University.
- 2 p.m. .. Visit to Cadbury Bros., Ltd., or Golf Match (continued) or Tennis Tournament (continued), or
- 2 p.m.-12 midnight Visit to Stratford-on-Avon by coach. Dinner at Stratford-on-Avon followed by visit to Memorial Theatre for performance of "Cymbeline."
- 7 p.m.-1 a.m. .. Dinner Dance at the Botanical Gardens, Edgbaston, Birmingham. (For those not visiting Stratford.)

Executorship Law and Accounts

Leaves from the Notebook of a Professional Accountant

By ERNEST EVAN SPICER, F.C.A.

A VERY LARGE SECTION OF THE PUBLIC CLINGS TO THE BELIEF that law must be as dry as dust and accounting as tedious as the treadmill.

The truth is, it is not the practice of law or of accountancy that is uninteresting, but rather is it the theory which is often rendered so by teachers whom Providence never ordained to teach. If, therefore, the employment of unorthodox methods helps to interest the student in his subject and to stimulate him to further effort, any apology would be out of place.

With this explanation, let us attempt to deal with some aspects of executorship law and accounts which do not always receive the attention which is their due and which are often tinged with elements of tragedy and romance.

The abolition of Legacy Duty and Succession Duty, which came as a surprise to most people, will certainly simplify the administration of the estates of deceased persons and will remove certain glaring anomalies in the case of small estates.

Whether or no it is entirely just to make good the resulting loss of revenue—with the addition of a few extra millions for luck—by increasing the rates of Estate Duty applicable to large estates is an open question which should be considered dispassionately.

One thing, however, is certain. The relief granted to those who die comparatively poor may reduce to a minus quantity many of the estates of those who die very rich. Perhaps it is in keeping with the times in which we live that from him that hath shall be taken away all that he hath.

* * * *

ILLUSTRATION ONE

Let us consider the abolition of Legacy Duty in relation to the estate of Miss Amelia Whiting, a retired governess, who until quite recently lived with her cousin, Miss Emily Bateman, also a retired governess, in an obscure country village.

The case is not entirely devoid of pathos as the following facts very clearly demonstrate.

Miss Whiting died, as the result of an accident, on the morning of Sunday, March 13, 1949, leaving an estate of almost exactly £3,000. She had no living relations save her cousin, Miss Bateman, to whom, under her testa-

mentary dispositions, she very properly bequeathed her entire fortune.

The Estate Duty at 1 per cent. amounted to £30 only, but the Legacy Duty on the residue at 20 per cent.—the rate applicable in this case—absorbed no less than £590 odd.

Had it been possible for the overworked country doctor to have reached Miss Whiting's house somewhat earlier on that fatal Sunday morning, when she cut off her thumb with the carving knife, she might not have bled to death and might even have lived to the passing of the Finance Act, 1949. Then the Legacy Duty would have been avoided.

Further, had death visited Miss Whiting less suddenly she might have adopted the expedient of giving £3,000 to Miss Bateman absolutely after the doctor had "thrown in his hand or her sponge."

The gift *inter vivos* would, of course, have been subjected to Estate Duty, in the hands of Miss Bateman, but in these circumstances no Legacy Duty would have been payable.

The doubling of the rates of Legacy Duty (with the exception of that applicable to charities) under the Finance Act, 1947, was, to say the least, a savage additional burden to thrust upon beneficiaries; and apparently this fact has now been recognised in so far as small estates are concerned and remedied, with almost unnecessary generosity, by means of the total abolition of Legacy Duty, without inflicting any corresponding penalty on such estates.

Thus one anomaly has been removed, but in a manner which is likely to create far more serious anomalies at the other end of the scale.

Surely this little evil could have been mended, simply, justly and with comparatively little loss to the Revenue, by decreeing that in no circumstances should the rate of Legacy Duty exceed the rate of Estate Duty payable, except perhaps in the case of charities.

People who—like Mr. Barkis—are too "near" to give during lifetime, when the "extraction" may prove as painful as the pulling of a tooth without an anaesthetic, but who nevertheless give with relish to charities at death when the "extraction" may be assumed to be painless, rather than to their kith and kin, should in no circumstances be encouraged.

Attention is now directed to another case bearing on the subject, although it is a case of somewhat different character, which happily can be studied without tears.

ILLUSTRATION TWO

Shortly after the termination of the first world war, Mr. Silvester Swinton eloped with the beautiful and wealthy wife of Senator Elihu Hopkins, an American citizen.

Very naturally Mr. Hopkins was vexed with his wife for disregarding so flagrantly her marriage vows and for two whole years refused to grant her the divorce for which she pleaded so persistently and so tearfully. Eventually, however, he relented and preparations were immediately made for her marriage to Mr. Swinton.

The day fixed for the nuptials drew near when, as a result of a conversation with Mr. Charles Greatheart, a distinguished accountant, the eyes of Mrs. Hopkins were opened to the unpleasing fact that marriage would add materially to the burden of taxation to which her personal income would be subjected, with a consequential diminution in her spendable income.

She thereupon decided against marriage but, as a compromise to society and her conscience, altered her name by deed poll from Hopkins to Swinton.

Thus it came about that "Mr. and Mrs. Swinton" settled down very comfortably in an English country village without in any way troubling either the Registrar of Births, Deaths and Marriages or the vicar of the parish.

Only the Inspector of Taxes, the Special Commissioners and Mr. Greatheart were informed of the conjugal irregularity.

Early in January, 1949, Mr. Swinton called in Mr. Greatheart to discuss the financial implications of his will and was informed by that gentleman that the estimated present value of his estate was approximately £17,000, upon which Estate Duty at 10 per cent. would be payable in the event of his premature death.

Mr. Greatheart added, however, that Legacy Duty at the rate of 20 per cent. would be payable by Mrs. Swinton on the residue—which under the will was bequeathed to her—instead of the more appropriate rate of 2 per cent., which would have been the rate had the connubial relations been regularised and blessed by the local vicar.

The penal nature of this imposition quite unnerved Mr. Swinton. He failed completely to understand why the Estate Duty authorities should frown so severely on a state of affairs to which not only the Income Tax Inspector but also the Special Commissioners had given their unqualified blessing. He begged Mr. Greatheart to find a solution to the problem.

This Mr. Greatheart was unable to do, explaining that whereas a visit to the hymeneal altar would undoubtedly soften the hearts of the Estate Duty authorities, it would unquestionably harden the hearts of the Inspector of Taxes and of the Special Commissioners.

Little did Mr. Swinton imagine when he discussed this question of the "softening of hearts" so earnestly with Mr. Greatheart in the month of January, 1949, that it would be the heart of the austere Chancellor of the Exchequer, Sir Stafford Cripps, that would soften towards him.

But so it was, and when on the evening of Wednesday, April 6, 1949, Mr. Greatheart informed him that under the proposed alteration in the law Mrs. Swinton would be relieved entirely of the crushing burden of Legacy Duty and that in his particular case there would be no increase in the rate of Estate Duty payable, Mr. Swinton was heard to whistle, in a very pious manner, the tune of Cowper's well-known hymn, the opening lines of which run :

God moves in a mysterious way
His wonders to perform.

* * * *

But what about the poor millionaire? Nobody ever puts in a word or sheds a tear for him, and yet surely he deserves a little sympathy.

On his death 80 per cent. Estate Duty will be payable on the value of the estate as at the date of death. If the 80 per cent. were payable on the realised value of the estate the call for sympathetic tears would largely disappear, even though the gnashing of teeth by individual members of the millionaire's family might continue. How can executors hope to realise cash to meet the Estate Duty, aggregating as the minimum £800,000, without sustaining some loss, and in many cases very substantial losses, on the Estate Duty valuations, more particularly when dealing with shares in a private limited company?

Let us choose one example from many out of our notebook to illustrate how formidable may be these losses.

ILLUSTRATION THREE

Part of the estate of the late Sir Reynolds Whiting, Bart., consisted of a large block of shares in Whiting Bros., Ltd., the brewers, for which the executors failed to find a purchaser at anything approaching the Estate Duty valuation. After holding out for over two years they found themselves forced to sell to a syndicate at a price no less than £260,000 below that valuation. This loss, on the basis of the present rates of Estate Duty, would wipe out completely an estate of £1,050,000.

The case of Sir Reynolds is by no means so exceptional as might be supposed, and the evil—if evil it be—is likely to be accentuated greatly in the future. All such losses, as well as the administration expenses, have to come out of the slender margin of 20 per cent.

Would it not be more reasonable to grant to the executors a breathing space of, say, one year, to enable them to realise such blocks of unquoted shares and for the authorities to accept the realised proceeds as representing the true value as at the date of death? The sale must, of course, be an arms-length transaction.

If they reject this suggestion it is highly probable that in the future many cases will arise where they will fail to receive their full "pound of flesh."

Why should Mrs. Swinton net approximately £15,000 out of a gross estate of £17,000, while the butler of the millionaire may fail to receive his "one year's wages if still in my employ"?

For a very rich man to bequeath any legacies at all under his will is fast becoming almost humorous, and for any man who has responsibilities to die leaving great wealth is courting disaster.

And what about the executor of the millionaire who is

named in the will for a small—or for that matter a large—legacy?

Let him think twice before embarking on so perilous an adventure since, in sporting parlance, it is a "horse to a hen" that he will never touch his legacy. Moreover, if it becomes obvious that the assets can never realise sufficient to meet the Estate Duty in full, to say nothing of his legacy, is it likely—human nature being what it is—that he will worry himself overmuch whether he sells for pounds or guineas?

Before leaving our unhappy millionaire turning uneasily in his grave, let us consider a matter, which, though applicable to all estates, is of peculiar importance to the estate of a man who leaves a great fortune behind him.

It is often overlooked that "statutory liabilities" only can be deducted in ascertaining the net value of the estate of which a man may die possessed. The remaining liabilities are disallowed for duty purposes and must be met—if at all—out of the margin left after the Estate Duty has been paid.

This is of comparatively little importance in the case of small estates for several reasons.

In the first place, the Revenue authorities are usually fairly generous where the rate of duty is comparatively trifling and their sacrifice correspondingly small, but when it comes to large estates the smallest concession looms very large in their eyes. Secondly, it is clear that "border-line" liabilities will more often arise in connection with large estates than in the case of small estates. Lastly, the margin available to meet disallowed liabilities is relatively so much larger in small estates, paradoxical though this may sound.

Let us turn over again the leaves of our notebook for two examples from practice:

ILLUSTRATION FOUR

As everybody knows, the late Lord Stanhill perished in a recent Polar expedition and his body was eventually brought back to this country for burial in the family vault.

A suitable marble tablet was erected in the village church recording his Lordship's outstanding activities and small presents were given to each of the servants in accordance with wishes expressed by him in the diary which was found beside his frozen body in the snow-covered tent.

None of these expenses was allowed as a deduction for purposes of Estate Duty, and even the cost of the white silk nightshirt in which Lord Stanhill was buried was surcharged as unreasonable expenditure.

Further, some of the debts owing by him at the date of his death were treated in a similarly cavalier manner by the authorities and disallowed notwithstanding directions in the will—executed just prior to leaving England on his last, fatal journey—that all such debts should be paid in full.

He owed £220 to his bookmaker as a result of backing by radio from the Arctic Circle "Fleetfoot by Footrest out of Fleet Rabbit" for the Lincoln Handicap; £5,000 to the Stanhill Homes for Aged Employees, a debt due under bond and legally enforceable; £156 to his club in respect of losses at the bridge table which by inadvertence he had failed to settle prior to leaving on his Polar expedition and £26 5s. which he had promised to give to the

vicar by way of an Easter offering. Even the amount by which Lord Stanhill had wilfully understated his taxes some ten years previously, which had weighed heavily on his conscience throughout the entire period and which he directed should be paid at his death, though greedily accepted by the Revenue authorities, was denied as a deduction for Estate Duty purposes.

As regards the debt of £5,000 due to the Stanhill Homes for Aged Employees, the bond, which originally was for £10,000, was executed on January 1, 1947. The first instalment was due and paid on July 1, 1947. The second instalment of £5,000 was due on July 1, 1948. Lord Stanhill's death was presumed to have taken place on May 1, 1948. Now the first instalment of £5,000 was paid ten months prior to death and in consequence the Revenue authorities held that it constituted a gift *inter vivos* and that Estate Duty was payable thereon by the donee. With regard to the second instalment, this was disallowed as a debt for Estate Duty purposes for the reason that the debt was not created for the deceased's own benefit. In this manner the Estate Duty authorities received duty on the whole £10,000.

ILLUSTRATION FIVE

The next example deals with the case of a lady who died leaving a substantial fortune, though far smaller than that left by the late Lord Stanhill.

For many months before her death Mrs. Sandhurst was totally unable to deal with her own financial affairs and had requested her husband—to whom she had given a power of attorney—to deal with them on her behalf.

Now at the time when Mr. Sandhurst "took over," Mrs. Sandhurst was slightly over-invested and had a small overdraft at the bank. Her husband, knowing that an endowment policy owned beneficially by his wife would mature within a few months, thought it prudent to meet his wife's expenses himself temporarily and subsequently to recoup himself out of the proceeds of the policy money as and when received, rather than to increase the overdraft.

Thus, Mr. Sandhurst paid the sur-tax on his wife's personal income, the subscriptions she was in the habit of giving to Charities in which she was interested, birthday presents to her children and to himself and certain sums which she paid monthly to three elderly ladies in reduced circumstances. These payments over a period of some ten months aggregated a little over £1,400.

Mrs. Sandhurst knew that her husband was financing her in this manner but was not very happy about it and urged him again and again to repay himself what he had advanced. The assurance policy matured and the money was paid into Mrs. Sandhurst's banking account. In order to satisfy his wife Mr. Sandhurst drew a cheque for the total sum due and instructed his private secretary to pay it into his bank. This was on a Friday, but unfortunately the secretary forgot to deal with the cheque until the following Monday.

Mrs. Sandhurst died early on the Tuesday morning and the bank, hearing of her death before the cheque was cleared, very properly refused to honour it.

Mr. Sandhurst thus claimed the £1,400 odd as a debt

due to him by his wife at the date of her death. The Estate Duty authorities, having been furnished with details of the claim, refused to admit that the sur-tax was a deductible debt, on the ground that Mrs. Sandhurst had not been separately assessed; and they likewise refused to allow the bulk of the other items on the ground that the payments had not been incurred for her own exclusive benefit.

Had the cheque been presented as intended on the Friday and cleared in the normal way no question would have arisen.

The argument that Mr. Sandhurst had merely acted as a banker for his wife, and had granted her an overdraft in precisely the same manner as her own banker in fact had done, was brushed aside as having no relevance. And yet, wherein lies the difference?

There is no law which forces anybody to open a banking account and surely there can be no crime in a husband acting temporarily as his wife's banker during her illness.

The Revenue authorities gained approximately £600 as a result of their unilateral and possibly erroneous interpretation of the law, but it was not the money that troubled Mr. Sandhurst.

What really hurt him was the fact that the authorities had disallowed, as a rightful debt, the cost of a chair, which was the last present his wife had given to him.

* * * *

So far we have dealt with liabilities which cannot be treated as such for the purposes of Estate Duty and with assets, which on realisation fail to produce their full Estate Duty valuations.

But what about assets in respect of which Estate Duty is payable but which cannot be realised?

It is pretty clear in the case of large estates that the bulk of the assets will have to be sold to meet the Estate Duty payable, and that deep and grave consideration will have to be exercised by the trustee in determining which, if any, of the assets can be retained for sentimental or other reasons. If, in addition, the unhappy trustee is forced to hold assets, not because he wants to do so but because he is prevented from doing otherwise, his headache is likely to grow more intense rather than to disappear.

ILLUSTRATION SIX

Let us examine still more closely the case of Mrs. Sandhurst.

Before her marriage she was a Miss Vandrift, the daughter of a wealthy Dutch shipowner. From her father she had inherited a substantial fortune, including some mortgages, of the nominal value of Fl. 120,000, secured on farm lands in the north of Holland. At the date of her death in 1946 these mortgages constituted personal property outside Great Britain and were therefore subject to Estate Duty in this country, to say nothing of Dutch Inheritance Taxes.

The Revenue authorities at first claimed that the Fl. 120,000 must be converted into sterling at the official rate of exchange, namely, Fl. 10.35 to the pound, and duty paid on this basis, but Mr. Sandhurst stoutly objected to any such proposal. He pointed out that if the mortgages were sold or called in, the realised proceeds would be blocked by the Dutch Government and that years might pass without any indication of de-blocking. He argued,

therefore, that it would be ridiculous to value these mortgages on the same basis as investments which could be converted into free cash.

He agreed that the interest on the mortgages which had accrued subsequent to the liberation of Holland, but prior to the death, and which under Dutch law could be remitted to this country, should be valued at par, but he denied that cash, which under Dutch law could be utilised only in Holland, should be similarly valued. He strengthened this argument by pointing out that, in spite of Dutch permission, British regulations sternly prohibited the spending of any of this money in Holland, so that for all practical purposes it was blocked currency.

Eventually a somewhat unfavourable compromise was reached on the following basis:

Free Florins to be valued at par value.

Florins (theoretically available in Holland) to be valued at 50 per cent. of par value.

Blocked Florins to be valued at 25 per cent. of par value.

The point to be remembered, however, is that Estate Duty—in this case 40 per cent only—had to be paid out of the margin available on assets which could not be realised and which the trustees were forced, by circumstances beyond their control, to retain.

* * * *

From what has been said it is clear that the position of an individual named under the will of a rich man to receive a legacy, or of one who has been rash enough—on the security of a *post-obit*, to advance money to an heir having "great expectations," is indeed perilous. It is probable that had Lord Byron been living to-day he might have modified somewhat the verse in his poem entitled *A Bunch of Sweets*, which runs:

Sweet is a legacy and passing sweet
The unexpected death of some old lady
Or gentleman of seventy years complete
Who've made "us youth" wait too too long already
For an estate or cash or country seat
Still breaking, but with stamina so steady
That all the Israelites are fit to mob its
Next owner for their double-damned *post-obits*.

* * * *

With the abolition of Legacy Duty, the legatee will receive his legacy, in full or in part without further deduction, or, if he is unlucky, not at all.

Legacies will still abate proportionately in cases where they cannot be paid in full, but in such circumstances all that tedious process of differentiating between those left free of duty and those left subject to duty will disappear.

Legacies have thus lost much of their "interest" both to students of and examiners in Executorship Law and Accounts, but gifts *inter vivos* remain as perilous to the recipient as they are romantic to the dispassionate outsider.

Summarising the law on the subject very generally and very briefly, it may be said:

- (1) If the gift be a gift of cash, the Estate Duty payable will be assessed on the amount of the cash so given, whether the donee has dissipated the money or invested it profitably.
- (2) If the gift consists of property such as securities or a horse,

the duty is payable on the value of the property as at the date of the death of the donor, and this holds good whether or not the donee still retains the property. If, however, the gift be a racehorse and that racehorse has predeceased the donor, no duty will be payable because the property, which otherwise would be deemed to pass at the donor's death, has ceased to exist.

- (3) If the gift be a gift by way of settlement, duty is payable on the property or fund as it stands at the donor's death, whether or not the original gift was cash or other property.

* * * *

Let us now turn from theory to practice and deal with three cases from our notebook which demonstrate how "passing sweet"—with the accent on the "passing"—gifts *inter vivos* may sometimes prove.

ILLUSTRATION SEVEN

We take first a very pathetic case which arose on the death of Sir Ambrose Whiting, the multi-millionaire.

To celebrate his diamond wedding, Sir Ambrose gave to his impecunious nephew, Mr. Charles Collins, a present of £10,000. This generous gift enabled Mr. Collins to marry Miss Elizabeth Bennett, the lady to whom he had been engaged for fourteen years.

He bought a small farm which he stocked in the orthodox manner, and invested the balance of the money in the shares of a highly recommended West Australian diamond mine. Mr. and Mrs. Collins then settled down to a happy married life and it seemed, at first, as if their career was destined to be characterised by an immunity from sorrow altogether beyond the usual lot of humanity.

But, alas! the tide of fortune turned.

Sir Ambrose Whiting died two years and nine months after celebrating his diamond wedding, and the Revenue authorities called on Mr. Collins to pay no less than £7,500 Estate Duty on the gift *inter vivos*.

The farm was sold at a substantial loss; the diamond shares realised the price of paste. Mr. Collins, finding himself hopelessly insolvent, and being ignorant of the extreme tenderness with which the representatives of the Estate Duty office handle these harsh and unconscionable cases, filed his petition in bankruptcy.

Mrs. Collins went back to live with her mother and the twins were placed in an orphanage.

* * * *

Our next illustration, though lacking in pathos, is distinctly dramatic.

ILLUSTRATION EIGHT

Many years ago Mr. Max Lewisjohn had taken over, in satisfaction of an otherwise bad debt, 4,000 shares in the Baluchistan Mining Syndicate, Ltd. He presented these shares to his godson, Mr. Charles Oliver, on the occasion of that gentleman's coming of age, on which date the market quotation was 7½d. per share.

Three months later the shares were quoted at 10d., at which price, and on the advice of his godfather, Mr. Lewisjohn, he sold them to Mrs. Lewisjohn.

On the death of Mr. Lewisjohn, in June of the following year, the shares were quoted at no less than £12 10s. each, having rocketed skywards during the preceding six months following the receipt of a report from the mine manager announcing the discovery of several rose-coloured diamonds

of great purity and of very large size, to say nothing of cartloads of ordinary diamonds.

The Estate Duty authorities thereupon claimed from Mr. Charles Oliver £37,500 Estate Duty on the gift *inter vivos*.

It should be noted that the shares were worth £125 when they were given to Mr. Oliver. He sold them to Mrs. Lewisjohn for £166 13s. 4d., but because they were deemed to pass as a gift *inter vivos* on the death of Mr. Lewisjohn, the Revenue authorities were able legally to claim duty on £50,000, the value of the 4,000 shares at the date of Mr. Lewisjohn's death, notwithstanding the fact that the shares were no longer in Mr. Oliver's possession, having been sold to Mrs. Lewisjohn.

It may be mentioned that Mr. Oliver had not 37,500 pence in the world at the time when the claim was made, and was thus unable to satisfy the demands of the Revenue.

A compromise, however, honourable to all parties, was effected, and Mr. Oliver continued his studies at Greenwich Observatory.

Mrs. Lewisjohn fortunately sold out at the top of the market before the bottom fell out and the sides fell in, which they did following the receipt of a cable from the mine manager cancelling his previous report, as having been sent in error, and apologising for any inconvenience caused.

* * * *

ILLUSTRATION NINE

Our last illustration is taken from *De Mortuis Nil Nisi Bona*, by D. F. de l'H. Ranking, and deals with the touching case of Charles Augustus Algernon de Jones.

The case as originally reported appeared many years ago in the form of a poem, the third verse of which is here reproduced:

Two years before he left this vale of tears
He justified his wife's most anxious fears
He spent ten thousand on a rope of pearls
A gift, to one of Daly's chorus girls.

It may be mentioned in passing that this poem can be sung to the tune of H. F. Lyte's well-known hymn and that an accompaniment on the harmonium is strongly recommended.

The case, though admittedly exceptional, is not unique, for it cannot be denied that other men as well as Charles Augustus Algernon de Jones have fallen financial victims to a pretty face and a well-turned ankle.

Anyhow, be that as it may, Miss Flossy Teazle, the chorus girl in question, scorning all legal aid which was freely offered, presented herself in person before the representative of the Estate Duty authorities, arrayed in an Ascot frock and a picture hat.

She argued convincingly that the market price of pearls had slumped heavily since the gift was made—a fact for the truth of which she herself could vouch, since she had sold the pearls to a Hatton Garden dealer at a price less than 50 per cent. of their original cost—and that in the circumstances the value of the gift which was deemed to pass at the date of Mr. de Jones's death should be priced with becoming moderation. She offered—of course without prejudice—to compromise the matter on the

basis of an agreed value of £2,000, adding that her offer held good till twelve noon of the clock on the Thursday following.

The representative of the Estate Duty authorities was duly impressed not only by the eloquence of the lady but also by her picture hat, and reported strongly that the offer should be accepted, as indeed it was.

Punctual to her promise Miss Teazle again presented herself at Somerset House on the following Thursday and handed over a cheque for the exact amount which she had promised to pay.

It was noted with interest by the representative of the Estate Duty authorities that the cheque bore the signature of the same Hatton Garden merchant to whom Miss

Teazle said she had sold the pearls. His name and the date of the cheque were entered on the official file for possible future reference.

* * * *

But we have said enough for this occasion and have already overstepped our time limit. Let us therefore close the pages of our notebook.

De mortuis nil nisi bonum; or should it be *bona*?

Let us hope that when our time comes to join the great majority we may be remembered, for one brief moment, because of the "good" we may have done or at least tried to do while living, rather than because of the "goods" of which we may have died possessed.

Taxation Notes

Residence—Relief for Losses

AN APPEAL TO THE SPECIAL COMMISSIONERS involving an interesting point concerning residence of a company has been brought to our notice. The company concerned had been resident abroad until September 16, 1939, when, mainly due to the war, its control was moved to the United Kingdom. In the years ended June 30, 1938 and June 30, 1939, while the company was resident abroad, it had incurred trading losses which in ordinary circumstances would have been available for relief under Section 33, Finance Act, 1926. The Special Commissioners concluded, however, that these losses remained for all purposes outside the purview of the Income Tax Acts and that they could not be deducted from any of the assessments on profits earned after the change of residence. The company had argued that it was entitled to relief following the principle laid down in *Fry v. Burma Corporation* (1930, 15 T.C. 113). In this case, it will be remembered, it was decided that when a company previously resident abroad became resident in this country and its profits therefore became liable to United Kingdom income tax for the first time, the normal basis of assessment (average of the three preceding years) applied and the business was not to be treated as newly set up on the date when it first swam into the purview of the revenue laws of this country. The Special Commissioners held that the position as regards losses differed materially from that as regards profits. The preceding-year system of assessing profits is merely a statutory method of ascertaining profit for the purposes of assessment. The assessment itself becomes the "profit" or

income for the year of assessment. A loss, on the other hand, remains a loss of the year in which it was sustained and is not taken as a measure so as to bring out a loss for the succeeding year, there being no provision corresponding to that of Rule 1 as regards profits.

Dependent Relative Allowances— Two Parents

Where a taxpayer maintains his parents, who have no income apart from their old age pensions of 26s. and 16s. a week respectively, he should be able to claim the full allowance of £50 per annum for each dependant (provided he contributes as much as that to their maintenance). A case has been brought to our notice in which the Inspector of Taxes concerned sought to restrict the relief in the following way: mother's income, nil; allowance, £50; father's income, £109; allowance, £11.

It is sometimes rather loosely stated that the income of a married woman who is living with her husband is deemed to be his income for all the purposes of the Income Tax Acts. That is far too sweeping a generalisation. Under General Rule 16 "the profits of a married woman living with her husband shall be deemed to be the profits of the husband and shall be assessed and charged in his name . . ." The word "profit" in this context covers all income and it is clear, therefore, that the husband, if his income is such as to make him liable to pay income tax, must include both old age pensions in his returns. This view is, of course, reinforced by Section 27, Finance Act, 1946, under which the wife's old age pension is not to be regarded as "wife's earned income" even though it arises by virtue of her own contributions. However, both these provisions are directed to the assessment of the husband's income tax liability. Where dependent relative relief is in question, it is only the income enjoyed

by the husband (that is, the father of the claimant) in his own right that should determine the relief due.

It is understood that this view receives official support and in most districts the double claim is not resisted, where the circumstances otherwise justify it. The action of individual inspectors in restricting such claims should, therefore, be opposed.

It should be noted that any claim for dependent relative relief rests on the basic condition that the dependant is "maintained" by the taxpayer. Where the parties do not live in the same household and a cash payment is made by the taxpayer to his aged parents or other dependent relatives the position is clear enough. Often, however, the claimant is an unmarried son or daughter who is living in the parents' house. It is obvious that in many circumstances of this kind the amount paid to the parents by the claimant is little more than a reasonable amount to cover his or her own board and lodging. On the whole, the Revenue appear to have taken a benign view of such cases, but it is reasonable that where an unmarried taxpayer earning, say, £5 per week seeks relief for supporting two dependants, the claim should be scrutinised carefully.

Double Taxation Relief

The listing of dividends for the purpose of completing Income Tax returns requires considerable care where the various forms of double taxation relief are involved. One of these reflects the operation of Section 31, Finance Act, 1946. Before this came into effect it had been held that where a non-resident company paid dividends to British shareholders, such dividends were chargeable to tax in full, notwithstanding that the profits out of which they were paid included dividends on shares held by the non-resident company in United Kingdom companies, which dividends had already

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In this example the correct gross amount to enter in the schedule of taxed dividends is £19 13s. 9d., as is clearly shown on the voucher. If sur-tax liability arises, it will be on that figure. It may be noted in passing that a taxpayer who takes the short-cut method of grossing up his net dividends in total at the standard rate, will, in this case, turn the amount of £18 15s. 11d. actually received into an artificial gross of £34 3s. 8d. which is, of course, excessive. If these dividends are included in the income of a trust estate, care must be taken in grossing up the net income.

For income tax purposes, the following consequences ensue from the receipt of the dividend illustrated above :

income tax in this country (*Canadian Eagle Oil Co. v. R.* (1945, 27 T.C. 205).

Section 31 provides that, in these circumstances, a shareholder resident in Great Britain who receives a dividend from such a company can claim income tax relief in respect of part of the dividend (that part representing the proportion of the total profits of the foreign company that has been subjected to United Kingdom taxation). The Section goes on to say, however, that this claim does *not* have the effect of reducing the total income of the taxpayer ; if he is liable to sur-tax the full amount of the dividend must therefore be included in his return.

Section 31 is so worded as to imply that individual taxpayers will claim relief against the Case V, Schedule D assessments that will arise in respect of such dividends. In practice, however, the dividends are nearly always received through a bank which, acting as a "paying agent" under Section 23, Finance Act, 1938, is required to deduct tax at the standard rate, less the appropriate rate of double taxation relief. This relief, where Section 31 is involved, takes the form of deducting tax at the standard rate on part only of the dividend. The Canadian Eagle Oil Company agreed that, in respect of its dividend payable in August, 1948, the proportion subject to Section 31 relief was 90 per cent. of the whole. This is reflected in the following example of a tax deduction voucher issued by a bank in respect of a dividend collected for a customer and credited to his account :

Credit for interest due August 25, 1948.		
Dividend on 450 Canadian Eagle Oil Co. Ordinary shares		
	£	s. d.
	18	15 11
Gross amount of coupons or dividend	19	13 9
Tax deducted at 9s. on 10 per cent. of gross	17	10

In this example the correct gross amount to enter in the schedule of taxed dividends is £19 13s. 9d., as is clearly shown on the voucher. If sur-tax liability arises, it will be on that figure. It may be noted in passing that a taxpayer who takes the short-cut method of grossing up his net dividends in total at the standard rate, will, in this case, turn the amount of £18 15s. 11d. actually received into an artificial gross of £34 3s. 8d. which is, of course, excessive. If these dividends are included in the income of a trust estate, care must be taken in grossing up the net income.

For income tax purposes, the following consequences ensue from the receipt of the dividend illustrated above :

- 17s. 10d. is the limit of tax available (so far as this one dividend is concerned) for a repayment claim.
- The 17s. 10d. represents a deduction of tax at 9s. from 10 per cent. of £19 13s. 9d. = £1 19s. 4d. The balance of £17 14s. 5d., which was not subject to deduction of tax, although it is part of the taxpayer's statutory income, is not available to cover "annual charges." This may give rise to a Rule 21 liability, for example where trustees pay an annuity out of trust income which includes dividends of this nature.
- Where claims depend on total statutory income, for example where life insurance relief is restricted to one-sixth of the statutory income, the full amount of £19 13s. 9d. can be taken into account.

One lesson to be learned from the foregoing is that taxpayers with small incomes which are taxed by deduction, who are dependent upon their annual repayment claims to make up their net income to a reasonable subsistence level, should avoid shares in companies which are subject to double taxation relief. This is perhaps even more marked in cases where Section 52, Finance (No. 2) Act, 1945, applies, for here the company will deduct tax at the full standard rate but the shareholders's repayment is restricted to the net United Kingdom rate of tax suffered by the company (which has to be stated on the dividend counterfoil). To take an extreme example, Mrs. X's sole income arises from a holding of £2,500 six per cent. preference shares in A B, Ltd. For 1948-49 the company's net United Kingdom rate of tax is stated to be 5s. in the £. Mrs. X is 70 and therefore entitled to age relief. Her repayment claim will be as follows :

Total income 6 per cent. on £2,500		
	£	s. d.
Old age relief $\frac{1}{2}$ of £150 =	25	at 5s. = 6 5 0
Personal allowance	110	at 5s. = 27 10 0
Reduced rate relief	15	at 5s. = 3 15 0
	£150	£37 10 0

Had the dividend not been subject to Section 52 the repayment would have been :		
Old age relief	£25	at 9s. = 11 5 0
Personal allowance	110	at 9s. = 49 10 0
Reduced rate relief	15	at 6s. = 4 10 0
	£65	5 0

There is thus a loss of £27 15s. through holding this particular investment, which is a serious matter to a taxpayer with such a slender income (the capital may well be

held in trust). It will be no consolation to her (or, for that matter, to other holders of preference shares) to point out that because of the operation of Section 52, the company will be in a position to make a larger (net) distribution to its ordinary shareholders. Incidentally, since this argument was advanced officially when the Section came into force, limitation of dividends has become "the order of the day."

It was understood that one of the declared objects of the 1945 legislation was the simplification of double taxation relief claims. Most practitioners will, we think, agree that this branch of the subject grows in complexity almost from day to day.

New Double Taxation Agreements

Orders in Council in respect of the Double Profits Agreement with the Irish Republic and the Shipping and Air Transport Profits Agreement with Argentina have been made, and the Orders have now been published as Statutory Instruments 1949, No. 1434 and No. 1435 respectively.

Committee on Taxation of Trading Profits

The committee announces that in addition to the matters referred to in its previous announcement (see ACCOUNTANCY, August, page 214) it is prepared to receive representations on the following question :

Whether the profits of wholly owned, or substantially wholly owned, subsidiary companies should be grouped with the profits of the parent company and treated as one for the purposes of income tax, and if so, what consequential adjustments would be necessary.

The Society of Incorporated Accountants has been asked to submit a memorandum to the Committee. Members of the Society are invited to send their suggestions to the Secretary not later than September 30.

City of London College

Comprehensive evening courses in preparation for the Intermediate and Final examinations of the Society of Incorporated Accountants and an introductory course for newly articulated clerks and others who have just joined the profession, will be held during the winter. Special courses of lectures will also be provided on Income Tax and Profits Tax for Intermediate students and an advanced course of six lectures (Michaelmas or Lent Term) on Profits Tax for Final students and practising accountants.

The main courses will commence on September 26 and the enrolment evenings will be September 19 (old students only), September 20 and 21. Preliminary enquiries should be addressed to the Secretary of the College, Moorgate, E.C.2. (Monarch 8112-3).

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

E.P.T.—Interconnected companies—Company holding less than nine-tenths of ordinary share capital of another company—Whether second company a subsidiary—Finance (No. 2) Act, 1939, Section 17—Companies Act, 1948, Section 154.

The question in *Lamb Brothers (Humber Sales), Ltd. v. C.I.R.* (K.B.D., May 12, 1949, T.R. 205), was a very simple one. If Company A owns a majority of the ordinary shares in Company B but does not own nine-tenths, can it be claimed that the latter is for Excess Profits Tax purposes a subsidiary of the former despite the fact that by Section 17 of Finance (No. 2) Act, 1939, as amended :

For the purposes of this Section a body corporate shall be deemed to be a subsidiary if and so long as not less than nine-tenths of its ordinary capital is owned by that other body corporate

either directly or indirectly ?

Counsel for the appellant company pointed out that in Section 154 of the Companies Act, 1948,

A company shall . . . be deemed to be a subsidiary of another if, but only if . . .

and that there were no such words of limitation in Section 17. The Special Commissioners had held that the definition in the latter section was an exclusive one ; and Croom-Johnson, J., affirmed their decision. The alternative construction would, of course, make nonsense of the passage from the Section quoted above.

E.P.T.—Company directors whereof holding controlling interest—working proprietor—Persons holding more than one-twentieth of share capital but less than enough to qualify as directors under company's articles—Whether despite legal disqualification to be regarded as directors for E.P.T.—Companies Act, 1929, Sections 141, 144, 380—Finance Act, 1937, Schedule IV, para. 13 (b), Finance (No. 2) Act, 1939, Section 13 (2)—Finance Act, 1940, Section 31 (1).

C.I.R. v. Heaver, Ltd. (K.B.D., May 16, 1949, T.R. 207), was a case which arose out of a situation far from uncommon with private companies, namely, where under a company's Articles of Association every director has to hold a certain number of shares in the company but the necessity is either overlooked or ignored. Sometimes for Excess Profits Tax the effect is advan-

tageous to the taxpayer, at other times the reverse. In the present case, it was claimed that by virtue of Section 31 (1) of the Finance Act, 1940, which substituted a new Section 13 (2) for the original Section 13 (2) of the Finance Act, 1939, J.T.H. and J.H. were within the definition of "working proprietor" contained in the substituted sub-section. Each held 200 shares (of £1) in the company, being more than one-twentieth of its issued share capital ; but, under the company's Articles, the qualification of every director was the holding in his own right and solely shares of the nominal value of £500 ; and the office of director was to be vacated on cessation to hold this qualification or not obtaining it within one month of appointment. Neither J.T.H. nor J.H. had ever held the requisite number ; and the question was whether or not they were at the material times directors of the company and entitled to be regarded as "working proprietors."

The General Commissioners had found in favour of the appellant company but, unfortunately, in the words of the judgment of Croom-Johnson, J. :

The General Commissioners have found, not as a fact but as a matter of law, expressly, that these two individuals are directors of the company in law, and have been fully engaged in the company's business in respect of the period covered by the appeal.

The qualification required by the company's Articles does not, however, stand alone, and for E.P.T. purposes :

The expression "director" has the same meaning as in Section 144 of the Companies Act, 1929

and includes :

any person occupying the position of director by whatever name called.

and

For the purposes of this section a person, in accordance with whose directions or instructions directors of a company are accustomed to act, shall be deemed to be a director and officer of the company.

Unfortunately, as the judge observed, this point as to what in the present writer's words may be termed "constructive" or "statutory" directors does not seem to have been raised before the Commissioners. His final decision is expressed in the following words :

I cannot conceive how anybody could find, as a matter of law, on these facts, as it seems to me in the teeth of the Section, in the

teeth of the use of the words of the statute, that the individuals here concerned are in law directors of this company.

Nevertheless, granted this to be correct, does it meet the argument that by reason of their qualification by conduct in the company's business and of their actual shareholdings they should be regarded as directors and as "working proprietors"?

Income tax—Damages for personal injuries—Award for loss of future earnings—Whether deduction to be made for income tax payable on such earnings.

In *Billingham v. Hughes* (C.A., March 10, 1949, T.R. 105), the point shown in the heading came before the Court of Appeal for the first time. In two English cases it had been held that income tax was not to be taken into account whilst in Scotland two other cases had been heard with discordant results. A unanimous Court upheld the previous English decisions ; and their conclusion may be summarised in the words taken from Lord Keith's judgment in *Blackwood v. Andre* (1947, 25 A.T.C. 318) and quoted by Birkett, J., as being the essence of that decision :

The Court, in my opinion, has no concern with the incidence of taxation when assessing the damages of an injured taxpayer.

Tucker, L.J., however, had some doubt, which Singleton, L.J., did not share, whether in cases of P.A.Y.E. different considerations might not arise. It is difficult to see how it matters whether income tax is paid direct by the taxpayer to the Revenue or indirectly through an employer. (See also ACCOUNTANCY, July, 1949, page 189.)

E.P.T.—Statutory percentage of interest on capital—Company—Whether director-controlled—Power of attorney given by shareholder to director—Whether voting power thereby transferred to director under company's Articles of Association—Finance (No. 2) Act, 1939, Section 13 (9)—Companies Act, 1929, Table A, Clause 61.

In *C.I.R. v. James Hodgkinson (Salford), Ltd.* (K.B.D., May 18, 1949, T.R. 219), the mother of the chairman of the directors held 17,000 ordinary shares throughout, while his son held 1,300 during the period to June 30, 1942, and 1,600 at all other times. The mother gave one of the directors a power of attorney on October 10, 1923, and the son did so upon January 17, 1940. If the voting power was thereby transferred, then, by virtue of *J. Bibby & Sons, Ltd. v. C.I.R.* (1945, 1 All E.R. 667, 29 T.C. 167), the company was director-controlled, but not otherwise. The issue depended upon the company's Articles of

Association. (The references in the headings of the Taxation Report of this case to Table A are in error save as to Article 61 of Table A in the Companies Act, 1929. Table A did not apply to the company.) By Article 82, voting by proxy was contingent upon appointment in writing by the appointor and, by Article 83, no appointing instrument was to be valid after the expiry of twelve months from the date of its execution. No proxy had ever been given by mother or son and, even if the powers of attorney given were considered to be proxies, the time limit of effectiveness had expired. Both mother and son had remained as shareholders upon the company's register. The Special Commissioners had held that the company was director-controlled; but Croom-Johnson, J., reversed their decision, holding that the powers of attorney were not proxies and that even if they were the time limit had expired in each case. The circumstances of the case before him had not been provided for in the company's Articles.

Income tax—Sur-tax—Scheme for avoidance of liability to tax—Transfer of assets abroad—Lease of property situate abroad to U.K. company controlled by lessors—Settlement by which rent payable under lease to be paid to non-resident trustees—Trust for benefit of lessors' issue with provisions for capitalisation—Power to appoint to widow of one of lessors—Power of lessors or lessee company to determine lease—Power of lessors to withdraw properties from lease subject to adjustment of rent, etc.—Trustees empowered to lend money without security—Whether power to enjoy income of trust—Whether loan can be a "benefit"—Whether "wife" includes widow—Whether power to revoke or determine settlement—Finance Act, 1936, Section 18—Finance Act, 1938, Sections 38, 40, 41.

Vestey v. C.I.R. (House of Lords, May 6, 1949, T.R. 149), was noted in our issues of April and December, 1947. In the earlier note, the history of the Vestey's protracted and very successful attempts at tax avoidance was set out at considerable length. The recent case, in which, after defeats in the lower Courts, the Vestey's have secured complete victory in the House of Lords, arose out of a belated attempt by the Revenue to attack the elaborate avoidance scheme from another angle. In *Adamson v. Union Cold Storage Co., Ltd.* (1931, 16 T.C. 293), the Revenue had contended, *inter alia*, that the lease rent of £960,000 per annum payable by the company was either payable out of the profits or was a distribution of profits and was not a payment necessary for the purpose of earning profits. All three Courts had rejected the Revenue contentions. In the present case, the Revenue claimed that the settlement was caught by Section 18 of the Finance

Act, 1936, enacted to deal with transfers of assets abroad, and by Section 38 of the Finance Act, 1938, enacted to deal with settlements where the settlor has not entirely divested himself of interest in or power over the settled income or funds.

Just as the scheme was the most elaborate plan of tax avoidance ever considered by the Courts, so the judgments in the Court of Appeal and in the House of Lords were of corresponding complexity, with the result that it is not easy to summarise. Nevertheless, certain of the conclusions of their Lordships may be given:

(1) In Section 18 of the Finance Act, 1936, and Sections 38-40 of the Finance Act, 1938, the word "wife" does not include "widow," *C.I.R. v. Gaunt* (1941, K.B. 706, 24 T.C. 69) being over-ruled. Similarly, "husband" does not include "widower."

(2) The only property "comprised in the settlement" at any time was the rent paid by the Union Cold Storage Company under the lease, together with any property resulting from the investment of the rent. The properties comprised in the lease were not comprised in the settlement. *C.I.R. v. Morton* (1941, 24 T.C. 259,) was over-ruled.

(3) "Individual" in sub-Section (1) of Section 18 of the Finance Act, 1936, refers to the same individual and Section 1 of the Interpretation Act, 1889, does not apply, so that the rights mentioned cannot be those acquired by a group of individuals, however small.

(4) Where under a trust deed there is a right to direct the trustees as to the investment of the trust moneys the power is a fiduciary one and must be exercised in the best interests of the beneficiaries. Otherwise there would be a breach of trust. Any loan of trust moneys must be at a commercial rate of interest if made to settlors or the company connected with the settlement. Any other course would not be "investment."

(5) The power to determine the 1921 lease was not a power to revoke or otherwise determine the settlement or a provision thereof within Section 38 (2) (a) of the Finance Act, 1938.

(6) By sub-Section (4) of Section 38 of the Finance Act, 1938, a settlor is to be deemed to have an interest in income or property comprised in the settlement if any such income or property is payable to him or applicable for his benefit in any circumstances whatsoever. Their Lordships held that the words "payable to" are directed only to an out-and-out payment with no obligation on the payee to return the money. A loan at a commercial rate of interest would not be applicable for his benefit within the sub-section.

(7) Assuming liability in principle under Section 18 of the Finance Act, 1936, it had been argued that there was no power to assess executors other than in respect of actual income and that "deemed" income was not income which "arose or accrued" to Lord Vestey within General Rule 18 of the Income Tax Act, 1918. Although, in the circumstances, it was not necessary to decide

this point, the decision in favour of the Revenue in *Cottingham's Executors v. C.I.R.* (1939, 1 K.B. 250, 22 T.C. 344) was approved.

Summing up the position, the *Vestey* and *Wolfson* cases have been to a great extent sequels to *Chamberlain v. C.I.R.* (1943, 2 All E.R. 200, 25 T.C. 317), and, altogether, they constitute a very serious breach in the Revenue's defences against tax avoidance by means of settlements. It remains to be seen how the problem so presented will be tackled by the authorities.

E.P.T.—Avoidance or reduction of liability—Main benefit to be expected from transaction during currency of E.P.T.—Private company with one person owning 99 per cent. of shares—Formation of second private company with identical memorandum and with same person owning all but one of shares—Business carried on by second company different from that of first company—Finance Act, 1941, Section 35—Finance Act, 1944, Section 33.

Joseph Smith (Cleckheaton) Ltd., and Rawfolds Spinning Co., Ltd. v. C.I.R. (K.B.D., May 17, 1949, T.R. 213), afforded a simple but not uninteresting example of the benefits of multiple personality made feasible by the company law of this country. Smiths was formed in 1930 and carried on the business of wool and worsted spinners. It was the one-man company of Mr. Smith. In 1941, Rawfolds was formed in circumstances which need not be set out with a memorandum identical with that of Smiths; and, as the same Mr. Smith owned all the shares in Rawfolds save one, it will be seen that he had split himself into three legally distinct persons, the real Mr. Smith who may be called No. 1, the Cleckheaton company which may be called No. 2, and the Rawfolds company which may be called No. 3. The business carried on by Rawfolds during the war period was mainly that of warehousemen storing wool for the Wool Control.

In view of the identical terms of their memoranda, what was done by Mr. Smith as Rawfolds could obviously have been done by Mr. Smith as the Smith company, and the resultant profits included in the computation relating to the latter. Alternatively, Mr. Smith in his capacity as the Smith company could have subscribed the capital of Rawfolds so that the profits of the latter would also be liable to Excess Profits Tax, as a subsidiary of the Smith company. As a further alternative, Mr. Smith—the real Mr. Smith—might subscribe the whole of the capital of Rawfolds, in which event Rawfolds would be entitled to be treated as an independent trading unit with a standard of its own unless—and that is how the case arose—the Revenue should attack

under Section 35 of the Finance Act, 1941, and Section 33 of the Finance Act, 1944, and claim successfully that the whole arrangement was one for avoidance or reduction of liability. A direction had been made by the Revenue in which it was alleged that the Smith company had transferred part of its business to Rawfolds. It also directed that the business of the latter should be regarded as carried on by the former and that the liability should be the joint and several one of both companies. The Special Commissioners had found that, whilst avoidance or reduction of liability was not one of the main purposes of the scheme, the Smith company was caught by the "main benefit" provisions of Section 33 of the Finance Act, 1944. (The "joint and several" liability of the original direction and the inclusion of Rawfolds in the direction had been abandoned or rejected during the course of the case.)

Croom-Johnson, J., reversing the Special Commissioners' decision, held that on the facts Section 33 of the Finance Act, 1944, did not apply; the Smith company had neither transferred nor acquired shares in Rawfolds nor had there been any change in the person carrying on the former's business or any part of it.

In *Ayrshire Pullman Motor Services and D. M. Ritchie v. C.I.R.* the Lord President said:

No man in this country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores.

And Mr. Smith's advisers seem to have borne this in mind.

Income tax—Schedule D, Case I—Cotton spinning company—Cost of trading stock—Payment to Cotton Controller based on company's stock position—Whether payment part of cost of cotton—Income Tax Act, 1918, Cases I and II of Schedule D, Rule 3 (a).

In *Ryan v. Asia Mill, Ltd.* (K.B.D., May 5, 1949, T.R. 143), there was an issue which when divested of technicalities was essentially simple. During the late war cotton was controlled by the Government and spinners obtained their supplies by applications to the Cotton Controller. In August, 1942, a new system was instituted, and they were encouraged to send in orders for as much cotton as they could store. Obviously, a spinner who did this might be exposing himself to serious risk, and so the Controller offered an arrangement, accepted by the company, which, in substance, was one whereby if the controlled price was raised the spinner was to pay the

difference to the Controller and if the price was lowered the latter was to pay the difference to the spinner. In 1944, the price was raised and the company had to make a payment of £55,087. This was admitted to be a deduction in computing profits; and the issue was whether in arriving at the cost of the company's stock at the end of the accounting period the cost was to be ascertained by adding to the invoice price the additional 4½d. per pound of cotton paid to the Controller. The Special Commissioners had found in favour of the company; but Croom-Johnson, J., reversed their decision, holding that they had misdirected themselves upon a question of fact.

Very similar questions not infrequently arise in connection with additional duties on goods, and few will question the appropriateness of the decision.

E.P.T. — Directors' remuneration — Whether company director controlled—Directors holding half of voting rights—No chairman of directors—Finance Act, 1937, Schedule IV, para. 13 (b)—Finance (No. 2) Act, 1939, Schedule VII, Part I, paragraph 10 (1)—Finance Act, 1940, Section 33 (5).

In *C.I.R. v. Monnick, Ltd.* (K.B.D., May 18, 1949, T.R. 223), the question of whether the company was controlled by its directors was one which may possibly have been, but probably was not, considered when the company was incorporated upon February 25, 1941. During the relevant period, its issued capital consisted of 2,000 founders' shares held by four persons each of whom held 500. Only one of the four was a director, but the manager, also one of the four, was deemed to be a director for purposes of Excess Profits Tax, and there was a director, a fifth person, who held no shares in the company, there being no obligation under the articles in this respect. The two directors, M and N, had resolved under powers given by clause 85 of Table A of the 1929 Act to delegate all the powers of the directors to M; and during the relevant period the whole of the directorial power resided in him. The Revenue contention was that all the directors had to do was to elect a chairman and then by virtue of articles in Table A he would be chairman at every general meeting, and be able, by reason of his votes as shareholder and the votes of the shareholder deemed to be a director, to poll one-half of the votes, and then, as chairman, give the casting vote which would be decisive. Unfortunately for this argument, the "deemed" director was not a director for the purposes of the Companies Act and, under the articles, a quorum was two directors. In consequence, Croom-Johnson, J., held that there was no board of directors, and nobody who could elect a chairman. As a matter of fact, M's father took the chair at every

general meeting of the company. In these circumstances, the Special Commissioners had held that the case was not one of director control and the learned Judge approved their decision.

Income tax—Investment holding company—Management expenses—Expenses incurred in changing investments—Stockbrokers' commission—Whether admissible in a claim to repayment in respect of expenses of management—Income Tax Act, 1918, Section 33.

Capital and National Trust, Ltd. v. Golder (K.B.D., May 19, 1949, T.R. 227) was a case of considerable importance within a limited field. By Section 33 of the Income Tax Act, 1918, life assurance companies or any companies whose business consists mainly in the making of investments and the principal part of whose income is derived therefrom, or savings banks can, subject to certain statutory restrictions, claim repayment of tax upon sums disbursed as "expenses of management (including commissions)." By sub-Sections (4) and (7) of Section 31 of the Finance Act, 1933, the said Section 33 was extended to certain Industrial and Provident Societies. The relief is contingent upon there having been no charge upon the concern under Case I of Schedule D in respect of its profits and—although this is not expressly stated—the relief is regarded as confined to cases where the business is that of holding rather than trading in investments and where, in consequence, profits and losses arising on realisations are ignored for tax purposes.

In concerns of the characters mentioned the costs attendant upon changes of investment are apt to be very considerable, the principal items being stamp duties and brokerage commission. Some years ago, although the claim had always been regarded doubtfully, the Revenue had decided that these costs could be included in claims under Section 33; but it seems subsequently to have changed its opinion, and, in the present case, the matter had been taken to the Special Commissioners, the appellate authority under the section. They had decided in favour of the Crown; and Croom-Johnson, J., affirmed their decision, holding that the costs of changing investments were not expenses of management and that "including commissions" had reference not to stockbrokers' commissions but to commissions paid to those who managed the concern. The judgment is a short one and does not cover the whole field in which the question arises, for example, cases where the change of investments is involuntary as where bonds are drawn for redemption. The magnitude of the financial interests affected makes it certain that unless the Crown's legal

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position is regarded as impregnable the matter will not be allowed to rest where it is.

Estate duty—Estate held by deceased as tenant for life—Estate consisting of landed property and investments—Formation of company—Alteration of deed of re-settlement to permit of funds being invested in shares of company—Sale of landed property to company by deceased as tenant for life—Sale of investments held by trustees to company—Consideration cash and £750,000 payable in forty half-yearly instalments—Appointment to deceased absolutely of £100,000 cash and the £750,000 payable in instalments—Former sum used by deceased to take up 100,000 seven per cent. preference shares in

company—Execution by deceased and another appointor of deed whereby income of settlement accumulated for twenty years for benefit of classes of persons to complete exclusion of deceased—Power of deceased to appoint—Loans to deceased by company in later years at interest—Neither loans nor interest to be payable until two years after death of deceased—Customs and Inland Revenue Act, 1881, Section 38 (2)—Customs and Inland Revenue Act, 1889, Section 11—Finance Act, 1894, Sections 1, 2 (1) (b)—Finance Act, 1900, Section 11—Settled Land Act, 1925, Sections 38, 73, 75, 107, 108—Finance Act, 1930, Sections 35, 39—Finance Act, 1940, Sections 43, 46, 47, 51, 56, 58, 59. Attorney-General v. St. Aubyn Estates, Ltd. (K.B.D., May 20, 1949, T.R. 229) was a case of an elaborate scheme which, unless the judgment of Croom-Johnson, J., is

reversed, will have been completely successful not only in relieving the late Lord St. Levan, who died in 1940, of much income tax, including sur-tax, during the last thirteen years of his life but also in avoiding estate duty upon the settled family estate after his death. Unfortunately, considerations of space preclude the possibility of explaining the procedure adopted—the heading above sets out the main features—but it would seem, subject to the possibility of reversal on appeal, that although in Finance Act, 1940, a complicated network of sections was provided in order to foil such schemes, the one considered in the case was too cunningly conceived to be caught in it. The defendant company went into liquidation in 1944.

FINANCE

The Month in the City

Steadier Markets

At the moment of writing the feature of markets is that they are steadier than for a fortnight or so, but the net effect is a further considerable fall in values on the month. Over that period there was a continued weakness in all fixed-interest securities, led by a fall in the Funds. After a preliminary period when small sales brought down prices sharply without evoking any considerable volume of public buying, there was a resumption of institutional investment. The volume was, however, insufficient to secure anything more than a more rational adjustment of prices. After that sharp falls were replaced by a general sagging tendency. The net results are shown by the indices of the *Financial Times*. The yield on Old Consols rose on the month from 3.38 to 3.48 per cent., thus establishing a rate of interest of virtually 3½ per cent., meanwhile the Government securities index fell from 108.82 to 105.54—the fall on two months is some 5 points—and that for fixed-interest shares in general from 126.72 to 121.51, or by a slightly greater percentage.

In view of these movements, and of the uncertainty of the industrial outlook, one might well have seen a heavier fall in equities. They did at one time lose almost

all the ground gained in the closing days of the previous month, but early in August some bargain hunting sufficed to make blue chip equities move against the trend of fixed-interest shares. The present index is 102.7 compared with 104.0 a month ago and with 101.8 during the month. This comparison presents a more favourable picture than the general course of prices would suggest. One would have supposed that the attack on the profits of those who distribute utility goods would have served as a warning that the Government is not likely to be tender towards the profits of industry and commerce as the crisis develops.

G.E.C. Finance

The announcement of the issue of £8 million 3½ per cent. ten-year stock at £99 by the General Electric Company almost coincided with the publication of the accounts for the year to March 31. Profit showed a fall which appears to be due to a decline in the home demand for light products and to the cost of carrying the growing volume of stock-in-trade. The bulk of the new money, which is only medium-term borrowing, seems to be required to repay bank accommodation obtained to carry the stocks. The net

value of fixed assets is up by less than £1 million on the year but outstanding commitments exceeded that figure. No doubt a considerable part of stocks represents work in progress on heavy equipment, much of which is for export. But a substantial part is for genuine stocks of materials and probably of finished products which may have to be written down. There exists, however, a specific provision of over £2¼ million against the total value of the stocks item of almost £25½ million. It seems that the point is now near at which either deflation of costs or inflation, accompanied by devaluation, will be inevitable, and in either case large stock reserves will be required.

Overseas Security Dealings

The Council of the London Stock Exchange has now decided to amend its regulations as they affect dealing in securities which have been granted a quotation on other recognised exchanges, provincial, Commonwealth and foreign, since September, 1946. This alteration represents no change in the attitude of London but is a reflection of the tightening up of the requirements for granting quotations by the other exchanges, that is, to all intents and purposes, by Johannesburg. The result of the change will be that dealings in "quoted" securities can be done without formality, whereas for the past three years special permission has had to be obtained from the Share and Loan Department for each security. The true importance of the development is, of course, that it arises from the Johannesburg Exchange having adopted requirements for the protection of investors which are at least equal to those exacted by London.

Points from Published Accounts

Accounting Colossus

The thirty pages of the Lever & Unilever accounts are more than a meal for the company's shareholders. The capital employed at the end of 1948 was £232 million, and turnover of £617 million yielded profits before tax of £25½ million. Comparative figures are given throughout, and for full measure there is a twelve-year summary of consolidated figures, an analysis of turnover and a description of the personnel division.

Lever & Unilever is divided into two groups—Limited and N.V. Figures relating to the latter are given in Dutch florins and the combined figures are shown in sterling, using Fl. 10.691 = £1 as the exchange rate. Shareholders are twice reminded in italics that: "The combined figures are shown as a guide, and no more, to the financial position of both groups, and when considering them the existence of restrictions on transfers of currencies must be borne in mind." In view of the existence of an equalisation agreement it would be of value if the figures for N.V. were converted into sterling, for the purposes of easier comparison, although it must be said that there are quite enough figures to be digested.

The tabular form of presentation is employed and this enables the copious notes to be presented against those items calling for comment. The narrative of the treatment of profits is simplified by omitting the amounts brought in and carried forward, and showing merely the "profit retained." The division of this is shown in a small table, which gives the allocation to general reserve, profits carried forward and the parent companies' proportions of the net profits retained by subsidiaries.

The critic of company accounts can only gasp at the wealth of detail, and conclude that the accounts reach the acme of intelligibility.

Non-Recurring Items

When the accounts of subsidiaries are fully consolidated it is perhaps unusual to see dividends received from subsidiary companies as a credit at profit and loss. This, however, is what *Advance Laundries* has done, for the very good reason that this receipt relates to the half-year preceding the accounting year. What this means is that shareholders can set this figure against the parent's net profit increase, although this net balance is struck after charging a non-recurring item of £10,000, the proposed payment to the managing director on termination of his service agreement. On

the other side of the account three provisions no longer required are brought to credit, which are also of a non-recurring nature. This means that the net profit as shown is not a faithful reflection of the year's trading operations. The failing is not uncommon. As most profit and loss accounts nowadays are split into two parts, there seems to be a case for the first part being related solely to normal items, so that the balance brought to the second part shows the *net* result of the year's operations. The second part can then contain the exceptional debits and credits.

Greyhound Racing Association Trust

The *Greyhound Racing Association Trust* produces an interesting consolidated balance sheet. In it there is no mention of the parent's issued capital, but instead there is shown the amounts (and grand totals) of the issued capital of seven subsidiaries held by the parent and by outside minority interests. There is also shown separately the balance sheet of the *Harringay Arena* subsidiary, but its profit and loss figures are excluded. It can be seen, however, that its revenue deficiency has been reduced. This departure from orthodox consolidation is, according to the report, preferable to full-scale consolidation for a clear appreciation of the state of affairs of the company and its subsidiaries. Yet if normal procedure had been adopted shareholders of the parent—whose issued capital is £1.4 million—would have been better able to see the extent to which their interest was represented by tangible assets.

Cow and Gate

In his speech circulated with the accounts the chairman of Cow and Gate voices his appreciation of the part which the 15,000 shareholders can, and do, play in furthering sales of the company's infant and invalid foods. Their co-operation should be increased by the presentation of a very clear set of accounts, printed in blue ink with the comparative figures in red. The two profit and loss accounts, parent and group, are in tabular form, and with the inclusion of comparative figures twelve columns are given. This is an instance of ingenious compression. A wise choice of type-face for the main items enables shareholders to pin-point with ease the main items.

The comparative figures for 1947 for the carry-forward of the subsidiaries are different from those in the published accounts for the previous year. A footnote explains that this is due to (a) the group's

proportion of pre-acquisition debit balances (less credit balances) on profit and loss account, which were set off against post-acquisition profits, having been deducted this year from pre-acquisition reserves in the consolidated balance sheet, and (b) to the change in the method of converting Canadian dollars into sterling. In previous consolidated accounts the 4.86 rate was used in respect of the Canadian subsidiaries.

Revaluing Assets

In order to arrive at a charge for depreciation more closely related to replacement value *Fine Spinners & Doublers* had an independent valuation made of all the company's property at March 31, 1948. The surplus created by the revaluation (£3,669,426) has been credited to capital reserve; presumably this represents two-thirds of the revaluation surplus, as a note to the accounts says that two-thirds of the valuation has been taken as a basis for balance sheet purposes and the property written-up accordingly. As a result, the depreciation provision has been doubled to £400,000 in the latest accounts, while an additional £100,000 has been charged in respect of replacement necessitated through re-equipment.

Those Butlin Hotels

Included in current assets *Butlin's* shows unquoted shares, loan to an associated company, amounts due from associated companies and "amounts due from the companies operating two Overseas Hotels." These hotels were one of the main bones of contention at the annual meeting, principally because of the lack of information in the report as to the terms on which they had been rented from Mr. Butlin and his associates. The auditors' report stated:

Two overseas hotels (which have not been visited by us) having been leased by the company as from October 1, 1948, audited accounts for the first full year are not yet available. Mr. W. E. Butlin as a director of the two companies operating the hotels on behalf of *Butlin's Limited* has certified the expenditure on revenue account to December 31, 1948, and the outstanding balances due from each of those companies. Such expenditure and outstanding balances have been incorporated in the accounts of *Butlin's Limited*.

National Savings Week

A national savings week will be held throughout the country from October 22 to 29 to focus attention on the work of the national savings movement. There are six-and-a-half million members of savings groups which, by encouraging regular saving, help to check inflationary pressures and, by releasing goods in short supply, to stimulate the export trade.

Legal Notes

New lease under Landlord and Tenant Act, 1927—Rent in excess of standard rent—Effect of Rent Restrictions Acts.

In *Rose v. Hurst* (1949, 2 All E.R. 24) the Court of Appeal decided for the first time a question of considerable practical importance which has been the subject of doubt among lawyers for some time. The Rent Restrictions Acts, which apply to "dwelling-houses" below a certain rateable value, fix a "standard rent" which cannot be exceeded. Any rent above the standard rent is irrecoverable as regards the excess. Business premises are not so controlled, but premises which are partly business premises and partly living accommodation are "dwelling-houses" within the Rent Restrictions Acts. Under the Landlord and Tenant Act, 1927, the tribunal may in certain circumstances award to the tenant of premises where a business is carried on a new lease for a period not exceeding 14 years at such rent as it thinks proper. What is the effect of these provisions where the premises are within the Act of 1927 and the Rent Restrictions Acts? Can the rent of the new lease be fixed at a sum in excess of the standard rent and, if so, is that rent recoverable? The Court of Appeal answered these questions in the affirmative. The Act of 1927 prevails.

Bankruptcy—Property for distribution—Bankrupt's claim for damage to property and reputation—Compromise of action—Apportionment of money received.

Re Kavanagh, ex parte the Bankrupt v. Jackson (1949, 2 All E.R. 264) is a very curious case. A solicitor, B, who had acted both for the debtor and for a creditor of hers, W, Ltd., gave her notice that he would act for her no longer, and called a meeting of her creditors. At the meeting B gave the creditors information about her financial affairs. The creditors refused to accept a composition and decided that the law of bankruptcy should take its course. W, Ltd., served a bankruptcy notice upon her, and she was duly adjudicated a bankrupt. In the meantime she had issued a writ against B claiming an injunction restraining him from disclosing confidential information which he had obtained about her financial affairs as her solicitor, and also

damages, and this action was settled, after the commencement of the bankruptcy, by B agreeing to pay £1,000 and the bankrupt's party and party costs. The trustee in bankruptcy claimed the £1,000 and moved in the County Court for a declaration accordingly. It was agreed at the hearing that, whether B had called the meeting of creditors or not, she would have been made bankrupt within a fortnight, and the County Court Judge found that no damage had in fact been done to her estate nor to her credit and reputation.

A cause of action in respect of a debtor's property and estate passes to the trustee in bankruptcy; a personal cause of action, such as a claim for libel, does not so pass; and the same applies to the damages when recovered (see the decision of the House of Lords in *Wilson v. United Counties Bank* (1920, A.C. 102)). Accordingly, in so far as the £1,000 was paid in respect of damage to credit, reputation and peace of mind it belonged to the bankrupt, and in so far as it was paid in respect of damage to property it belonged to the trustee. This was necessarily so, although neither type of damage had in fact been suffered and the solicitor B was obviously paying the money to avoid publicity. The County Court Judge in these circumstances awarded £300 to the bankrupt and £700 to the trustee, but Jenkins, L.J., and Romer, J., on appeal, held that, there being no evidence to guide the Court in making the apportionment, half must go to each, and a judgment of Solomon was accordingly delivered.

Betting debts and bankruptcy.

In *Hill v. William Hill (Park Lane), Ltd.* (*Times Newspaper*, July 30, 1949) the House of Lords, after a lapse of forty-one years, overruled by a majority of four to three the decision of the Court of Appeal in the celebrated case of *Hyams v. Stuart King* (1908, 2 K.B. 696).

Section 18 of the Gaming Act, 1845, provides:

All contracts or agreements, whether by parole or in writing, by way of gaming or wagering, shall be null and void; and no suit shall be brought or maintained in any court of law and equity for recovering any

sum of money or valuable thing alleged to be won upon any wager. . . .

In *Hyams v. Stuart King* the defendant had lost money to the plaintiff by betting and the plaintiff was threatening to report his default to Tattersall's; and the defendant then agreed to pay the debt in consideration of the plaintiff agreeing not to report him. This was held by the majority of the Court to be a new and enforceable agreement, Fletcher Moulton, L.J., dissenting, and the plaintiff succeeded. That case has been the subject of much discussion ever since, but has now been overruled by the House of Lords, in a case in which the facts were not dissimilar. The reasoning of the majority of the House was that, whether or not the promise not to report the defaulter was valuable consideration, the action remained an action to recover a "sum of money . . . alleged to be won upon a wager" and therefore fell within Section 18 of the Act of 1845.

If the House of Lords had delivered its judgment a few days earlier, *In re Harry Dunn, ex parte the Official Receiver* (1949, W.N. 326) might or might not have been differently decided. In that case a bookmaker had sued the debtor in an action in which the statement of claim alleged that the defendant owed the plaintiff £1,610 as a result of betting transactions, and had agreed with him by letter that the dispute should be adjudicated upon by the Bookmakers' Protection Association, and that he would be bound by its decision; that the plaintiff agreed, therefore, not to post him as a defaulter, and the Association had awarded that the defendant should pay that sum, which he had not done. Following upon the issue of the writ, the debtor filed her petition in bankruptcy and was adjudicated a bankrupt. The bookmaker's debt was the only debt scheduled, and his solicitors informed the official receiver, who was the trustee in bankruptcy, that the bookmaker did not intend to prove. Later the Inland Revenue lodged a proof for income tax, but in the circumstances to be mentioned withdrew their claim while declining to release the debt.

The Official Receiver then applied to the County Court to have the order of adjudication annulled, the receiving order rescinded and the petition dismissed. The registrar refused the application and the Divisional Court on appeal affirmed his decision. The Official Receiver then appealed to the Court of Appeal. He relied upon the words in Section 29 (1) of the Bankruptcy Act, 1914, "Where in the opinion of the Court a debtor ought not to have been adjudged bankrupt . . . the Court may . . . by order annul the adjudication."

It was obviously doubtful whether, even under the decision in *Hymans v. Stuart King*, there was a new consideration and agreement, and an enforceable debt. But the Master of the Rolls held that it was not possible to decide that matter either way on the mere statement of claim. In deciding in any particular case whether an order of adjudication ought to have been made, the Court must look to the actual state of affairs existing at the date of the order,

which might be proved by evidence subsequently given, but the Court was not entitled to take into account circumstances arising after the order. The debtor might well have been advised on the issue of the writ that the debt was enforceable. It was shown by *Re Painter* (1895, 1 Q.B. 85) that the fact that the debtor had filed his petition in order to protect himself from evils which he might otherwise suffer, and not with the benevolent intention of

securing a fair distribution of his assets among the creditors, was no reason why the order should not have been made. It was no abuse of the process of the Court. It might also be pointed out that if the adjudication were annulled, any outstanding claim existing at the date of the order, and not since paid, would remain in existence, and the bookmaker, for example, might proceed with his action. The appeal failed.

Publications

PRACTICAL AUDITING. By Spicer and Pegler. Ninth Edition by Walter W. Bigg. (H.F.L. (Publishers), Ltd., London. Price 25s. net.)

A SUMMARY OF AUDITING CASE LAW. By E. Miles Taylor. Fifth Edition. (Textbooks, Ltd., London. Price 10s. net.)

These two books together cover the whole ground and are invaluable.

The Foulks Lynch *Practical Auditing* has been familiar to students and to practising accountants since 1911. Mr. Bigg has revised it to incorporate the provisions of the Companies Act, 1948. This Act makes no difference, of course, in the basic principles which govern the work of the auditor. He still has a duty at common law to satisfy himself on the accuracy of the books and accounts and in doing so to exercise reasonable professional knowledge, care and skill, having regard to the circumstances of the particular case. But as is well known, the new Act, by its requirements of "true and fair" accounts, prohibits the creation of secret reserves, and by its prescription of consolidated accounts, prevents group working from being a means of concealment. The exposition of these changes has been worked into the existing text.

The editor points out that, at this early date, no experience of the working of the Act is available, but this reviewer does not think it likely that experience will nullify anything that Mr. Bigg has written.

There is a useful description of the duty of the auditor in relation to taxation. However, it seems rather academic to write that it is not the duty of the auditor to prepare and agree taxation computations but that this work should be undertaken by the officers of the company. Not many companies have officers capable of undertaking this work and whether the auditor does it as Cox or Box is not very important—the directors will usually regard it as among the most important of his duties.

Mr. Bigg might also have given us a more adequate discussion of the duties and responsibilities of the auditor when punched card systems of accounting are used, for his job is drastically affected once book-keeping entries are sorted mechanically.

Mr. Miles Taylor's book is much more than a summary of cases. He begins with an explanation of procedure in the courts—a section that will be particularly valuable to students. He then classifies the principal cases according to subject matter: (1) divisible profits and dividends; (2) the liability of auditors; and (3) miscellaneous matters. All the leading cases appear, with the author's explanations and comments.

The final chapter, perhaps rather remotely subsumed under the title of the book, is on "Trends in Auditing." This discusses the new developments which have been formalised by the American Institute of Accountants. Unfortunately, we are not quite clear how much in this section is American and how much is Miles Taylor. In regard to inventories, the American Institute suggests that it is normal procedure for the auditor to attend the stock-taking and satisfy himself on the effectiveness of the methods. English accountants, with their insistence that the auditor is not a stock-taker, will feel grave doubts about such suggestions, but the inexperienced student may read this section as implying that established English practice is being described. The author states that "confirmation of trade debts by direct communication with the debtors is an essential procedure and the American Institute requires disclosure in all cases where this procedure has not been carried out." Does this mean that Mr. Miles Taylor regards such confirmation as essential, and that, in its absence, the American Institute, but not necessarily Mr. Miles Taylor, requires disclosure to be made?

If so, students should be warned that this confirmation is by no means an established practice in normal cases here. Again, in this last chapter we read: "The relation between the independent auditor and the internal auditors is parallel to that existing between two accounting firms, one of which is doing work which the other is willing to accept." Surely not! The internal staff is in no professional sense independent but is subject to the orders of the directors. As the author himself says, a little further on, "Basically, internal auditing is a tool of management."

The comments in the preceding paragraph are merely intended to suggest to Mr. Miles Taylor that his valuable book would be made still more valuable if the last chapter were double the length and if it gave us his interpretation and comments on the American publications and practice.

W. J. B.

BOOKS RECEIVED

PALMER'S COMPANY LAW. Nineteenth edition by His Honour A. F. Topham, LL.M., K.C. (Stevens & Sons, Ltd., London. Price 42s. net.)

COMPANY LAW. By H. Goitein, LL.D., Barrister-at-Law. Second Edition. (Sir Isaac Pitman & Sons, Ltd., London. Price 15s. net.)

THE PRINCIPLES OF COMPANY LAW. By O. Griffiths, M.A., LL.B., and E. Miles Taylor, F.C.A., F.S.A.A. 5th Edition. (Textbooks, Ltd., London. Price 20s. net.)

HOW TO FORM A PRIVATE COMPANY. By Stanley Borrie. 22nd Edition. (Jordan & Sons, Ltd., London. Price 3s. 6d. net.)

ACCIDENT INSURANCE CLAIMS. By J. B. Welson, LL.M., F.C.I.L. (Sir Isaac Pitman & Sons, Ltd., London. Price 10s. 6d. net.)

A SHORT SURVEY OF INDUSTRIAL MANAGEMENT. By L. Urwick. (British Institute of Management, 17, Hill Street, London, W.1. Price 2s. 6d. net.)

MANAGEMENT'S REQUIREMENTS OF THE ACCOUNTING SYSTEM. By R. E. Yeabsley. (British Institute of Management, London. Price 2s. 6d. net.)

THE SOCIETY OF Incorporated Accountants

COUNCIL MEETING

JULY 19, 1949

PRESIDENT: Mr. A. STUART ALLEN, PRESIDENT (in the chair), Mr. C. Percy Barrowcliff (Vice-President), Sir Frederick Alban, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. Henry Brown, Mr. A. R. Butcher, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. Walter Holman, Sir Thomas Keens, Mr. D. R. Matheson, Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. Henry Smith, Mr. R. E. Starkie, Mr. Percy Toothill, Mr. Richard A. Witty, Mr. A. A. Garrett (Secretary) and the Deputy and Assistant Secretaries.

Mr. A. R. BUTCHER

The President extended a warm welcome to Mr. Alan Butcher, Durban, Hon. Secretary to the South African (Eastern) Branch, and paid tribute to the work and strength of the Society in South Africa. Mr. Butcher thanked the Council for their welcome.

HONORARY MEMBER

Upon the motion of the President, seconded by the Vice-President, it was resolved unanimously that Mr. A. A. Garrett be elected an Honorary Member of the Society in recognition of his long and devoted service to the Society and the profession.

EXAMINATIONS

The Preliminary, Intermediate and Final Examinations of the Society will be held at London, Manchester, Leeds, Birmingham, Cardiff, Glasgow, Dublin and Belfast on the following dates:

Preliminary: November 15 and 16, 1949.

Intermediate: November 16 and 17, 1949.

Final: November 15, 16 and 17, 1949.

Candidates are asked to obtain their application forms from the Honorary Secretary of their Branch or District Society.

Completed applications, with all relevant supporting documents and the fee, must be sent to the Secretary, Society of Incorporated Accountants, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2, not later than Monday, September 19, 1949.

The Society does not undertake to arrange hotel accommodation. Candidates must make their own arrangements in this respect.

ALLOCATION OF MARKS

Commencing with the November, 1949, examinations, the number of marks allotted to individual questions will be indicated in all papers in the Intermediate and Final examinations.

EXAMINATION TIME TABLE

Commencing with the November, 1949, examination, the time table of the Final Examination will be slightly amended to allow the longer papers to be held in the morning session. The paper on "Auditing and the General Duties of Professional Accountants, including Income Tax," will be transferred from Tuesday afternoon to Wednesday morning, 10 a.m. to 1 p.m. The papers on "Cost Accounts" and "Statistical Methods" will, in consequence, be advanced to Tuesday afternoon at 2.30 to 4 p.m. and 4 to 5.30 p.m. respectively.

PRELIMINARY EXAMINATION

Candidates are notified that the dates of the fourth period in the History paper will, in future, be 1815 to 1919 and not 1783 to 1901 as hitherto. The first question papers involving this change will be set in the May, 1950, examination.

DISTRICT SOCIETIES AND BRANCHES

BELFAST

THE ANNUAL MEETING WAS HELD ON JUNE 8. Mr. H. Anderson was in the chair.

The report and accounts were approved. Regret was expressed at the resignation from the Committee of Mr. A. S. Courtney. The other retiring members were re-elected. Mr. W. Dunn was re-elected auditor.

REPORT

The total membership is now 243, made up as follows: 32 Fellows in practice, 30 Associates in practice, 25 Associates employed in the accountancy profession, 31 Associates in Government departments, public bodies and commercial firms, and 125 students.

During the year three lectures and a dinner were held. There was a golf outing in conjunction with Dublin members.

The Society is represented on local organisations by the following members: Ulster Tourist Development Association, Mr. Samuel Boyle; Belfast Chamber of Commerce, Mr. H. McMillan; Belfast

Court of Referees Appeal Tribunal Panel, Mr. J. A. Winnington; National Insurance Acts—Local Tribunal Panels, Mr. J. A. Winnington; Price Regulation Committee, Mr. P. S. Bass; Council to Advise on Education to Clerical Trainees, Mr. R. Bell; Education and Training of ex-Forces Personnel, Mr. J. S. Lewis.

Saturday morning revision classes have proved very successful. A course on income tax was held on Monday evenings during the winter, and a short course on statistics for Final students.

The examinations were held in May and October, 1948, in Belfast. Four Intermediate and five Final candidates were successful.

A sub-committee was appointed to prepare a report giving the views of the Society on possible improvements in secondary school education. This report was forwarded to the Ministry of Education to be placed before the Committee who are considering changes which can be made in the present system.

DEVON AND CORNWALL REPORT

THE COMMITTEE REPORT ANOTHER successful year. Lectures have been held at Plymouth, and one lecture in Exeter, and the President has visited Exeter and Truro. It is hoped to hold meetings at a Cornish centre during next session.

Congratulations are extended to the successful examination candidates. Eight passed the Final and seven the Intermediate.

The annual dinner was held at Plymouth in November, 1948. Sir Frederick Alban, President of the parent Society, was the principal guest. The Committee were particularly pleased to entertain Mr. A. A. Garrett.

Mr. T. R. Johnson, F.S.A.A., City Treasurer of Plymouth, has again been kind enough to permit meetings to be held at his office.

HULL REPORT

THE MEMBERSHIP IS 106 SENIOR MEMBERS and 211 students.

Successful series of lectures were held by the Students' Section and by the North Lincolnshire Regional Committee. The senior members had two lectures.

The Committee congratulate the immediate past President, Miss Phyllis Ridgway, on her election to the Council of the parent Society.

Seven Final and six Intermediate examination candidates are congratulated on their successes. Mr. F. H. King was awarded the First Certificate of Merit and First Prize in the Final.

The Committee hopes to arrange a weekend residential course for students.

LONDON STUDENTS

A PRE-EXAMINATION COURSE FOR MEMBERS of the Incorporated Accountants' Students' Society of London and District will be held at King's College, Strand, London, W.C.2, from Monday, September 26, to Friday, September 30, inclusive.

The fee for the course is £1 10s.

Applications should reach Incorporated Accountants' Hall not later than Monday, September 12.

The Students' Society cannot arrange accommodation for those attending the course, but luncheon facilities are available at the College.

NOTTINGHAM, DERBY AND LINCOLN

REPORT

THE MEMBERSHIP IS 394, COMPRISING 65 Fellows and Associates in practice, 120 Fellows and Associates not in practice, and 209 students.

Six students were successful in the Intermediate examination and eight in the Final.

Seven lectures were arranged, including four held jointly with the Nottingham Societies of Chartered Accountants and Certified and Corporate Accountants. There was an additional costing lecture at the invitation of the Cost and Works Accountants.

The classes for students held at the Technical College, Nottingham, on Saturday mornings have been continued.

With the granting of the Charter to the University of Nottingham, accountancy students now read for the degree of B.A. (ADMIN.). Principals and parents are again invited to consider the advantages of the universities scheme.

The annual dinner was held on November 12, 1948.

SOUTH WALES AND MONMOUTHSHIRE

ANNUAL REPORT

DURING THE YEAR TWENTY-EIGHT STUDENT members were admitted.

The Committee regret to record the death of Mr. T. J. Griffiths, F.S.A.A.

EXAMINATIONS

The Committee congratulates the students who were successful at the examinations. Eight passed the Final and eleven the Intermediate.

Twenty lectures were given during the year. The Committee congratulate the officers of the two Students' Sections on the excellent programme, and view with great satisfaction the keenness of students in the advancement of their knowledge.

The Committee extend congratulations to the following: Lieut.-Col. R. C. L. Thomas, M.C., T.D., J.P., D.L., Fellow, Newport, appointed His Majesty's High Sheriff for the County of Monmouth; Sir

Frederick J. Alban, C.B.E., J.P., Fellow, Cardiff, a member of the Electrical Tribunal set up under the Electricity Act, 1947; Mr. Frank E. Price, Fellow, Newport, a member (part-time) of the South Wales Gas Board; Mr. Norman E. Lamb, Fellow, and Mr. F. J. Notley, Fellow, Justices of the Peace for the borough of Newport (Mon.); Mr. J. Alun Evans, Hon. Secretary of the Cardiff Students' Section, who has completed twenty-five years in that office.

At the last annual meeting of the District Society, Sir Frederick Alban, President of the parent Society, made presentations to Mr. J. Alun Evans on behalf of the Committee of the District Society and the members of the Cardiff Students' Section.

Practising members are asked to draw the attention of all articled clerks to the universities scheme. Particulars can be obtained from the Hon. Secretary.

The annual dinner was held on April 29, 1949.

Two golf meetings were held. The annual cricket match between the Cardiff and Newport Students' Sections resulted in a win for Newport.

A rugby match between the Cardiff Students' Section and the Cardiff Chartered Accountants' Society was won by the Cardiff Students.

PERSONAL NOTES

Messrs. Blakemore, Elgar & Co., Chartered Accountants, 124, Chancery Lane, London, W.C.2, have been joined in partnership by Mr. Victor H. M. Bayley, F.C.A., F.S.A.A. The style of the firm remains unchanged. Mr Bayley continues to carry on his separate practice at 24, Brixton Road, London, S.W.9.

Messrs Salisbury, Beaton & Raynham, of Kimberley, South Africa, have taken into partnership Mr. H. C. G. Tuckey, B.COM., A.S.A.A., C.A. (S.A.) and Mr. J. H. Buck, C.A. (S.A.).

Mr. N. Bennington, A.S.A.A., A.I.M.T.A., Deputy Borough Treasurer, has been appointed to be Borough Treasurer of Ealing with effect from February 5, 1949.

Messrs. Luff, Smith & Co., Incorporated Accountants, Drayton House, Gordon Street, London, W.C.1, announce that Mr. E. Luff-Smith, A.S.A.A., has retired from the partnership. The practice is being continued by Mr. W. C. C. Smith, F.S.A.A.

Messrs. H. A. Merchant & Co., Incorporated Accountants, Ealing, have taken into partnership Mr. J. L. Merchant, A.C.A., A.S.A.A.

Messrs. Beverley, Simpson & Co., Incorporated Accountants, Harrow, have opened additional offices at Derbyshire House, Belgrave Street, London, W.C.1.

Mr. Leslie H. Stewart, A.C.A., A.S.A.A., practising as Horsfield & Smith, Chartered and Incorporated Accountants, at Bury and Manchester, has been joined in partnership by Mr. J. M. Farraday, A.C.A., A.S.A.A.

REMOVALS

Messrs. Woods & Co., Incorporated Accountants, have removed to 64, Fountain Street, Manchester, 2. Telephone: Blackfriars 9956.

Messrs. Forster, Scollick & Co. have removed their Newcastle office to Agrionor House, 12, Westmorland Road, Newcastle-upon-Tyne, 1. A partner or a member of the staff will also be in constant attendance at 60, West Street, Gateshead.

Messrs. E. S. Howard, Son & Co. advise that their offices are now at 78, South Audley Street, London, W.1. Telephone: Regent 5354.

Mr. D. H. Pexton, Incorporated Accountant, is now practising on his own account at 2-3, Duke Street, St. James's, London, S.W.1, under the style of Pexton & Co.

Messrs. A. Wroot & Son, Incorporated Accountants, have removed to 13-19, Silver Street, Grimsby.

OBITUARY

FREDERICK ALLEN

We record with regret the death on June 14 of Mr. Frederick Allen, F.S.A.A., a partner in Messrs. Rawlinson, Allen & White, Incorporated Accountants, Belfast, and Messrs. Frederick Allen & Co., Omagh. He was 64 years of age.

Mr. Allen was a past President of the Incorporated Accountants' Belfast and District Society. He became a member of the Society in 1910 and was one of the founders of Messrs. Rawlinson, Allen & White in 1924, having been previously for many years with Messrs. H. B. Brandon & Co.

FREDERICK WILLIAM BUZZACOTT

It is with profound regret that we record the death on July 23 of Mr. F. W. Buzzacott, F.S.A.A., F.T.I.L., partner in the firm of Buzzacott, Lillywhite & Co., Incorporated Accountants, London and Bognor Regis. He became a member of the Society in 1918 and commenced public practice shortly afterwards, being advanced to Fellowship in 1924.

REGINALD LAWRENCE TAYLER

We have learned with regret that Mr. Reginald L. Tayler, F.S.A.A., died on June 9. He was senior partner in Messrs. Reginald L. Tayler, Hounsfield & Co., Incorporated Accountants, in the City of London, where he commenced public practice shortly after his admission to membership of the Society in 1907.

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